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Politics this week

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Attack in Jordan

In Amman, the capital of **Jordan**, suicide-bombers killed at least 67 people and wounded at least 150 more in co-ordinated attacks on three luxury hotels. The Iraqi branch of al-Qaeda claimed responsibility. See article

Veteran Israeli politician **Shimon Peres** unexpectedly lost a ballot for the Labour Party leadership. The winner, Amir Peretz, wants Labour to withdraw from the coalition government of Ariel Sharon.

AP

A second defence-lawyer in the **trial of Saddam Hussein** was killed in Baghdad, bringing demands that the trial, due to resume on November 28th after an adjournment, be held outside Iraq. Meanwhile, at least 30 people were killed in a suicide-bomb attack on a restaurant in the city. See article

Iran's government, sounding more conciliatory after the belligerent comments of its new president in the past few weeks, said it would like to restart negotiations with Britain, France and Germany. Those countries had previously suspended talks in response to Iran's decision to resume uranium-enrichment activities.

A tense stand-off continued in the **Ethiopian** capital, Addis Ababa, following last week's killing of 46 protesters by government security forces. The prime minister, Meles Zenawi, who won disputed elections in May, says that detained opposition leaders and two journalists will now stand trial for treason. See article

Ellen Johnson-Sirleaf, a former banker, seemed set to beat George Weah, a former footballer, in a run-off election for **Liberia's** presidency. If she wins, she will be Africa's first elected female leader. See article

Crisis state

The **rioting in France** that began in the suburbs of Paris spread across the country. The government drafted in extra police and invoked a 1955 law to authorise curfews. It also said it would deport any foreigners found guilty of rioting. See article

Tony Blair's Labour government suffered its first serious defeat in eight years, when the House of Commons rejected legislation that would have extended the period that terrorist suspects can be detained without charge to 90 days. See article

Germany's planned “grand coalition” partners agreed to raise value-added tax, cut public spending and relax rules that make it hard to fire unwanted workers. Critics said the plans would knock Germany's hesitant economic recovery on the head.

Azerbaijan's parliamentary election was won by the ruling YAP party of President Ilham Aliev. But international observers said the poll had been fraudulent, and the opposition started protests calling for another election. See article

The European Commission recommended that **Macedonia** should be invited to talks on joining the EU. It also criticised Turkey, with which talks began last month, for its continuing human-rights abuses.

Terror thwarted

Seventeen alleged Islamic militants were arrested in co-ordinated raids in Sydney and Melbourne. The arrests came days after **Australia's** prime minister, John Howard, gave warning that a major terrorist operation was being planned. See article

Indonesian officials reported that one of Asia's most wanted men, Azahari Husin, died in a police operation. Husin is wanted for involvement in the 2002 Bali bomb attacks and other atrocities.

India's foreign minister, Natwar Singh, resigned after being named in connection with the Volcker report into oil dealings with Iraq (he maintains he is innocent). See article

A new round of six-country talks aimed at defusing the crisis caused by **North Korea's** pursuit of nuclear weapons got under way in Beijing. See article

China's president, Hu Jintao, visited Britain and Germany. Next week, he will attend a regional summit meeting in Seoul, before hosting President George Bush in Beijing.

Two crossing-points between Indian- and Pakistani-occupied **Kashmir** opened, a month after the earthquake that has claimed at least 74,000 lives. See article

Terminated?

Reuters

California's voters rejected all four of Arnold Schwarzenegger's initiatives in a special election that the governor had called to shore up his reform agenda for the state. The electorate also rejected a separate proposal, endorsed by Mr Schwarzenegger, on parental notification for abortions. See article

Elsewhere, Democrats won the governor's race in both **New Jersey** and **Virginia** by much wider margins than recent polling had suggested. On the plus side for the Republicans, Michael Bloomberg easily won re-election as mayor of **New York**, and in **San Diego's** third mayoral election in a year, Jerry Sanders, a former police chief, trounced Donna Frye, a maverick surf-shop owner who contested November 2004's result by claiming her populist write-in campaign had won. See article

The Supreme Court said it will hear an appeal from Osama bin Laden's former driver, who is being held at Guantánamo Bay, on the constitutionality of Mr Bush's policy of detention and military

tribunals for **terrorist suspects**. See article

Much ado about nothing

AP

The **Summit of the Americas**, in Mar del Plata, Argentina, was a flop, as expected. The continent's squabbling leaders made little progress on the proposed Free Trade Area of the Americas or anything else. **Venezuela's** populist president, Hugo Chávez, also addressed a big “anti-summit” of anti-American protesters.

Mexico's President Vicente Fox said the summit's host, **Argentina's** President Néstor Kirchner, was more concerned with pandering to his voters than with the meeting's success. Mr Kirchner told him to mind his own business.

Peru's disgraced ex-president, Alberto Fujimori, unexpectedly left his Japanese exile and turned up in Chile, from where he hoped to run his comeback campaign. Chilean authorities arrested him and refused an application for bail. See article

Canada's New Democratic Party withdrew its support for prime minister Paul Martin's minority Liberal government, increasing the chances of early elections.

A record number of countries voted in the UN General Assembly for the United States to end its decades-old economic embargo on **Cuba.** While 182 countries backed the motion, only Israel, Palau, the Marshall Islands and America itself voted against.

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Business this week

Nov 10th 2005
From The Economist print edition

A new deal

The United States signed a three-year **textile-trade** deal with China that limits its imports on 34 categories of products. The EU reached a similar agreement with China during the summer. A dispute has been rumbling since January 1st, when World Trade Organisation rules lifting barriers to entry on Chinese clothes came into effect, causing a surge in imports. See article

Shares in **General Motors** fell to their lowest level since 1992. The troubled carmaker announced that it would restate its accounts for 2001 and possibly other years. Another big company, **AIG**, delayed its third-quarter results. The insurer also said it would be restating already restated accounts.

Qualcomm said it had filed a lawsuit against **Nokia** accusing the mobile-phone manufacturer of infringing its patents on GSM technology, used in most of the world's mobile-phones. The litigation comes after Nokia and five other firms complained to the EU that Qualcomm was using unfair and anti-competitive practices when licensing patents for its chips.

Deutsche Telekom, which last week announced a staff restructuring plan that cuts a net 19,000 jobs, posted a third-quarter profit of €2.4 billion ($2.9 billion), compared with a loss of €1.7 billion a year ago, on the back of growth in its T-Mobile unit. The firm also revealed a €1.2 billion plan to invest in new products next year.

Liberty Media appointed Greg Maffei as its new chief executive (Mr Maffei is stepping down as Oracle's chief financial officer). John Malone (who in effect controls the firm and remains chairman) also said the firm was creating tracking shares as a precursor to a possible spin-off of some units, including its QVC home-shopping business.

Material adverse changes

Guidant, a maker of medical devices, filed a lawsuit to force **Johnson & Johnson** to complete its $25.4 billion acquisition of the firm (agreed last December). J&J is trying to renegotiate the terms of the deal, the largest-ever in the health-care industry, because, it argues, Guidant's market value has fallen after a series of high-profile product recalls. Guidant also said that the SEC had launched a formal inquiry into the timing of the disclosure of its problems to stockmarkets. See article

VNU, a Dutch business-information group, confirmed it was discussing “possible alternatives” to its $7 billion takeover offer for **IMS Health**, an American firm that collects information for the drugs industry. VNU, which owns the Nielsen ratings service, made the bid in July but now says key investors oppose the deal.

Serono's share price rose sharply after the company confirmed it was seeking advice on "strategic alternatives". Speculation has been increasing that the Swiss biotechnology firm, Europe's biggest, is looking for a buyer (Serono says there are "no assurances" of a transaction).

Vietnam said it had obtained a licence from **Roche** to begin local production of Tamiflu, an antiviral drug touted as the best defence against bird flu. The Swiss drugs group, which will choose the local firms involved, had said earlier that it was on track to make a tenfold increase (on 2004's levels) in Tamiflu production by 2007. See article

Acting affirmatively

In a move to comply with South Africa's new Black Economic Empowerment laws, **De Beers** announced that it would sell a 26% stake, worth 3.8 billion rand ($562m), in its South African diamond-mining operations to a company that will be half-owned by its employees and pensioners and half by an investment firm managed by blacks. The world's biggest producer of diamonds was established in 1888 by Cecil Rhodes.

Amid hostile public opinion, the heads of America's **oil companies** were hauled in front of a Senate committee and questioned about the rise in consumer energy prices and the industry's record profits. The bosses blamed hurricanes and tight oil supplies.

Platinum prices hit $956 an ounce, their highest level since March 1980. Platinum's price is considered to be the most speculative in commodity trading, and demand has been fuelled by tougher worldwide pollution standards for vehicles: the metal is used in catalytic converters to clean exhaust fumes.

Currency speculation

The **euro** fell to a two-year low against the dollar. Trading in the currency was affected by a plea from European finance ministers to the European Central Bank not to raise interest rates. But the rioting in France also knocked confidence in the euro. Some analysts suggest the events may damage Nicolas Sarkozy, the minister responsible for law and order, who is regarded as a market-friendly possible future president.

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France

France's failure

Nov 10th 2005
From The Economist print edition

AP

The biggest lesson of the French riots is that more jobs are needed

Get article background

"IN THE deprived suburbs, a kind of soft terror rules. When too many young people see nothing ahead but unemployment after they leave school, they end up rebelling. For a time the state can struggle to impose order, and rely on welfare benefits to avoid worse. But how long can this last?"

Thus one rational analysis of the forces that lie behind the riots, car-burnings and street battles with police that have broken out, first in the *banlieues* of Paris and then right across France, every night for the past two weeks (see article). It is an analysis that points to a pressing case for action to build a greater sense of identity with French society among the rioters, most of whom are second-generation Muslims of north or west African origin. It also highlights the dispiriting effects of high unemployment as something needing urgent attention.

Yet what is most depressing about the words quoted above is that they were written over ten years ago, in January 1995, by a leading centre-right politician named Jacques Chirac. Mr Chirac has been France's president since May 1995, surely long enough for him and his various governments to do more to help the "deprived suburbs". But almost throughout his time in office, French unemployment has hovered close to or above 10%; the average rate of youth unemployment has lately been over 20%, one of the highest in Europe; and unemployment among young Muslims in the *banlieues* has generally been twice as high again. This week the president said little or nothing to echo the forthright views he expressed in 1995: he confined his scant public remarks on the riots to a simple call for the restoration of law and order.

That must certainly be a top priority. By the middle of the week, an extra 1,500 police reservists

had been drafted in to back up the 8,000 already deployed. The government had also resorted, controversially, to an emergency decree, based on a law of 1955 (at the time of the Algerian war), to permit the imposition of local curfews. Through a combination of such measures and the efforts of Muslim leaders to restrain their more hotheaded youths, the police seemed to be regaining control of the suburbs around Paris and they will surely do so in the rest of the country too. As always, much of the violence was driven by mindless criminality—mercifully directed mainly at vehicles and property, though there has been one death, and shots and petrol bombs have also been directed at the police.

But beyond the reimposition of law and order, France must learn several broader lessons from these riots. Start with policing methods. As Britain found in the early 1980s in Brixton and Toxteth, a tough, locally unaccountable police force that routinely harasses people from ethnic minorities can easily foster a climate in which seemingly minor incidents lead to mass outbreaks of violence. Just such an incident happened in Paris on October 27th, when two young Muslims who thought they were being chased by police were electrocuted after taking refuge in an electricity sub-station. To reduce the risk of more riots in future, France needs to try more of a neighbourhood-based approach to policing. It should also work harder at recruiting more police from ethnic minorities.

The bigger lessons from the past two weeks go far beyond the forces of law and order. The proximate trigger of the riots may have been the deaths of the two youths. But nobody doubts that the real roots of the trouble lie in the social and economic alienation of the largely Muslim population that has for two generations been isolated in the grim *banlieues* around so many French cities. There are arguments over why they feel alienated, but the answer surely lies in the toxic mix of poor housing, bad schools, inadequate transport, social exclusion, disaffection among Muslims who are discriminated against—and, above all, in mass unemployment.

Much of the world's attention over these two weeks has been on the role played by Islam. France is home to some 5m-6m Muslims, one-third of the total in the European Union and almost one-tenth of the country's population. Some French Muslims have been radicalised by such recent events as the September 11th terrorist attacks, the Iraq war (even though France opposed it) and the ban on wearing the Muslim headscarf in state schools (which was imposed in early 2004). Yet the French government has tried harder than many to integrate its Muslims, to create institutions to represent them, to work closely with imams and mosques, and to keep a wary eye on Islamic extremists. In any case, despite claims that the riots are France's *intifada*, they have not taken on a religious tinge. The rioters have not been the more devout Muslims; indeed, they include many non-Muslims.

Give us the jobs

A much greater contributor than Islam to the malaise in the suburbs is the lack of jobs. Mr Chirac promised in 1995 that unemployment would be his top priority, an assertion repeated ten years on by his new prime minister, Dominique de Villepin, when he took office last May. It is here, not in esoteric disputes over different models of assimilation, integration or multiculturalism, that the biggest differences between France and countries such as America and Britain are to be found (see article). Over the past decade the British and American economies have generated impressive growth and plenty of new jobs; the French economy has failed on both counts.

Why? The main answer is that the French labour market is throttled by restrictions such as the 35-hour week, a high minimum wage, and tough hiring and firing rules. Yet even after a decade in office, the supposedly centre-right Mr Chirac has made little effort to relax these restrictions. The few measures that his government has cautiously put in place to open up the labour market have served mainly to entrench a two-tier system, in which insiders continue to benefit from job and

wage protections that are denied to outsiders. Rather than tackle the fundamental causes of France's high unemployment, Mr Chirac has recently taken to railing against the evils of Anglo-Saxon market economics and liberalism (which he has termed the new communism).

It is, of course, the outsiders, especially the young, unskilled and ill-educated who come disproportionately from ethnic minorities, who pay the price—and it is these people who have led the riots. Not only do they feel economically and socially ostracised; they also see a political elite that appears aloof and detached from the troubles of their daily life. No wonder so many are affronted by the language of Nicolas Sarkozy, the interior minister, who dubbed the rioters “scum” and has promised to expel any foreigners among them.

Despite his tough words, Mr Sarkozy is actually one of the few French politicians who has made any effort to reach out to the *banlieues*, so it would be ironic were he now to pay the political price for the riots. Most of the rest of the French political elite, on the left as well as the right, have simply ignored a long-festering problem. There are no black or brown mainland members of the National Assembly; hardly any black or brown faces on national television. The yawning gap between the French elite and ordinary people was a big cause of the government's loss of the referendum on the European Union constitution in May. Now it has been shown once more in the night-time streets of suburban France.

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The airline industry

A surprising boom

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EPA

Governments should unleash the potential of an amazing recovery in airlines

PROFIT and airline are words rarely seen in the same sentence. By the end of this year the world's airlines will have lost a cumulative $43 billion since 2001. After terrorism, war, SARS and the post-dotcom slowdown came a fifth blow in the form of jet-fuel prices. The doubling in the cost of oil in the past two years has more than doubled the industry's fuel bill, partly because of pressure on refinery capacity. Much of America's airline industry is in bankruptcy protection.

It might seem more than a little perverse, then, to argue that aviation is booming when most headlines suggest the opposite. The evidence, however, is overwhelming. Strip out higher fuel costs and the industry as a whole would have more than recouped this year all of the losses it has made since 2001. Although American carriers are still deep in the red, in the rest of the world airlines are holding their own. Many big carriers in Europe and Asia are doing amazingly well (see article). Traffic just about everywhere is growing strongly. India and China are exploding on to the scene, and the Middle East is emerging as a global hub between Europe, Asia and Australia.

The low-cost-airline phenomenon is spreading fast from west to east Europe and further afield, to India and elsewhere in Asia. As millions who have never flown before start taking to the air in these places, just the annual increase in air traffic will, in about a decade, be as great as the total number of flyers in 1969, the year Boeing introduced the jumbo jet. Moreover, the airlines carrying these new millions will use the profitable business model of low-cost carriers.

The industry has been doing much to re-shape itself. Mainstream carriers are altering their networks to cope with, or retreat from, short-haul competition. Worldwide labour productivity has risen by one-third, as management has wielded the knife. After several years of messing about, American carriers in court protection from their creditors under Chapter 11 of the bankruptcy law are at last tackling their demons. Their distinctive problem is disproportionately high labour costs accounting for nearly 40% of total operating expenses, compared with 20% in Asia and around

30% in Europe.

Even if oil prices were to ease back down to around $30 (some $15 below what many in the airline industry expect), operating profits would represent a mere 10% of revenues, pretty low for such a capital-intensive business, reflecting the fierceness of competition. Still, that would be twice the margins earned in the boom years of the mid-1990s—a measure of carriers' progress.

The challenge for the industry is to make sure that a genuine turnaround does not, in a world of high oil prices, result in more profitless prosperity. Some of the airlines' fate rests in their own hands—carriers can hedge against rising fuel costs, for example. But the industry's recovery brings with it a reminder that government bureaucracy remains the biggest obstacle to its future progress. Internal liberalisation in America and Europe has been a boon and is spreading rapidly, promoting the rash of new low-cost contenders in Asia. By contrast, inter-regional long-haul flights tend to be tied down in bilateral deals that limit the freedom to fly where the market would take airlines. Nor do most countries allow foreigners to own more than 49% of an airline's shares.

Talk of freedom

Next week the European Union and America will sit down to try to hammer out a liberal air services agreement, with the intent of opening the skies across the Atlantic. Most EU countries, when they previously negotiated on their own behalf, signed semi-liberal open-skies deals, abolishing all restrictions on flights, but keeping rules limiting foreign ownership. At a minimum, there should be no retreat from these.

But governments should at last go further. They should scrap ownership rules and retreat from anything but technical and safety matters. Last week America made a token gesture saying that foreign executives could run domestic carriers even though ownership rules would stay. If that is all that is on offer, Britain (which clings to an ancient and illiberal national air agreement with America) will be tempted to block any EU-wide transatlantic liberalisation that would allow more American carriers to use London's Heathrow airport.

The justification would be that the coveted unlimited access to Heathrow should be held as a card to win the greater prize of total liberalisation. But that would be to counsel perfection. The approach on both sides should be to keep up the momentum for liberalisation. If both sides agreed to open the market across the Atlantic, the whole regulated structure of aviation would crumble and the industry that gave birth to globalisation could itself finally join the movement. The ride would be bumpy, but hugely worth it.

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Labour's terror rebellion

Blair bashing

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EPA

Either Britain's prime minister must change, or his party will change prime minister

"THE minister, whoever he at any time may be, touches it as with an opium wand, and it sleeps obedience." Before this week, you might have wondered whether anything had changed since Thomas Paine condemned the somnolence of Britain's 18th-century parliament. Under Margaret Thatcher and Tony Blair, Britain's two recent dominant prime ministers, the Palace of Westminster became a predictable place. Instead, ever more of the real governing seemed to happen on the deep sofas inside Downing Street.

But on Wednesday Mr Blair suffered his first defeat in the House of Commons in eight years as prime minister, over a new law on terrorism. The stench of rebellion is in the air. Parliament is back, and with it all the frenzied theatre of democracy—the oratory and toadying guff, the plotting and high principle, the MPs stretchered in from their sick beds to avoid defeat. For the messianic Mr Blair, a moderniser who has governed in almost presidential defiance of his own party, this calls for a big shift towards government by consensus. It is a change of style he may struggle to carry off.

Ninety days is a long time in politics

One immediate casualty of the vote—a welcome one—was the government's plan that the police should be able to question a terrorist suspect without charge for up to 90 days rather than 14, as now (see article). The other was Mr Blair's clout as prime minister. Facing defeat only a week after the resignation of one of his most loyal ministers, he chose to pin the vote on his own authority. And still 49 Labour MPs helped inflict a defeat by 31 votes. Not since the 1970s had a prime

minister suffered humiliation on such a scale.

Mr Blair and his supporters argue that they did the right thing, even if they lost. The public was with them. The Tories, having opposed the 90-days rule, are vulnerable if Britain should again be attacked by terrorists. Defeat over civil liberties, the Blairites say, does not portend defeat over the public-service reforms that the election manifesto set out as the main thrust of his third term—which he has said will be his last.

But rebellion will not easily fade away. Even if defeat is new, dissent is not. Philip Cowley, an academic who has studied backbenchers, has found that Labour MPs voted against the government in a fifth of divisions during the last Parliament, more than in any other since 1945. University fees, health policy and Iraq all caused huge rebellions. Back when Mr Blair enjoyed a big majority he could shrug off such things. No longer (see article).

Mr Blair's legislative programme seems almost calculated to irk his party's rebels. The use of markets and enterprise in health, education and other public services is both sensible and desirable. But it will not appeal to Labour backbenchers—especially if Mr Blair sets out to confront them in repeated trials of strength.

Mr Blair has spent the past eight years mastering an increasingly presidential style of politics only to find that another way is needed now. It would be foolish to write off Labour's most successful prime minister ever. In this vote, and probably others, he could count on support from Gordon Brown, his heir-inevitable. He has a legacy to fight for. But Mr Blair faces what for him is an unpalatable choice: to govern with his MPs or to see his legislation fail as ignominiously as did this week's—and with it the rest of his premiership.

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Palestine, Jordan and Iraq

The bloody Middle East

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Reuters

Bombs in Jordan, mayhem in Iraq—but George Bush must still not forget Palestine

WHEN Yasser Arafat died a year ago this week, the obsequies were combined with a sense of new opportunity in the Middle East. Whatever else he was—a national hero to his own people, an unreformed terrorist to the Israelis—he had by the time of his death become an obstacle to the Palestinian cause. The Americans and Israelis refused to talk to him; the Palestinians refused to dump him. While he lived, the dream of an independent Palestine arising peacefully in the West Bank and Gaza therefore remained stuck. But a new and pragmatic Palestinian leadership, said this newspaper a year ago, might alter "the entire psychology of this conflict".

That has not happened. The diplomacy is deadlocked and, this week, violence ranged across the region. Terrorists presumed to be from al-Qaeda killed scores of people in Amman, the capital of Jordan, one of America's best Arab friends and till now a tranquil fire-break between Palestine and Iraq (see article). The next day, more than 25 people were killed in a restaurant in Baghdad. In the West Bank and Gaza, on the other hand, the Palestinians have mostly observed a ceasefire since Arafat's death, so ending their second *intifada* against Israel. Little wonder that Palestine now comes near the bottom of the Bush administration's priorities in the region.

It shouldn't. If the diplomacy in Palestine goes nowhere, the *intifada* will eventually resume. That in turn will add to the instability of Jordan—over half of whose people are Palestinian. Besides, much has indeed improved since Arafat's death. The Palestinians have elected a new president, Mahmoud Abbas, who is back on speaking terms with America. On the Israeli side, Ariel Sharon has withdrawn all of Israel's settlements and soldiers from the Gaza strip. And although the 1.4m Palestinians living there remain hemmed in and cut off from their brethren in the West Bank, for the first time in more than half a century they are under the control of neither Egypt nor Israel. This is an opportunity to be grabbed, not shunted aside as America puts out the fires elsewhere.

Right now, alas, no serious diplomacy appears to be taking place beyond the reiteration by all sides of the significance of the international “road map”. This ordains that Israel's occupation shall end and that an independent Palestine shall come into being. But as to how, where and when, nobody agrees. Mr Abbas wants to talk right away about borders, refugees and the sharing of Jerusalem. Not till you dismantle the terrorist groups, retorts Mr Sharon—but even then Jerusalem is not for sharing and, according to the road map, the borders of the new state would first be “provisional”.

There is no easy way out of this impasse. Israel's insistence that Mr Abbas must dismantle groups such as Hamas makes eminent sense. How can Israel make peace with a man who tolerates and works alongside a violent movement that still says it wants to destroy the Jewish state (see article)? But Mr Abbas has a case too. Lacking the strength to crush Hamas, he hopes to tame it by letting it run in Palestinian elections in January, after which it might even join his government. America takes a middle position: the Palestinians need time to “reconcile their politics”, but Hamas must disarm eventually.

The Americans seem to have persuaded Mr Sharon to soften his objection to Hamas taking part in the election. Oddly, this might suit those Israelis who oppose the further territorial compromise required for peace. If Hamas joins Mr Abbas's government and does not renounce its aim of destroying Israel, the Israelis are off the hook: nobody should expect them to make peace with such a government. And if the Palestinians then mount a new *intifada*, they would have failed what America sees as a vital test: now that you are in charge of Gaza, show us that you can maintain calm there.

In an ideal world, the Palestinians would prefer to pass this test. But they face a dilemma. If they maintain calm, won't a distracted world forget their cause? That is also why they are wary of accepting statehood within provisional borders. Once the existential dispute with Israel had been resolved, the world might swiftly lose interest in the remaining territorial details, leaving Israel to consolidate the post-1967 gains marked out by Mr Sharon's separation barrier. A great many Palestinians believe Hamas's argument that it was the *intifada* that pushed Israel out of Gaza, and that only another wave of violence can wrest control of the West Bank.

Mr Bush is understandably fixated on Iraq. But he could do much to counter this bleak Palestinian view simply by spelling out as plainly as Bill Clinton did five years ago that although the Palestinians cannot expect a state exactly on the 1967 line, he will help them acquire both the vast bulk of the West Bank and a shared capital in Jerusalem. Only when Palestinians genuinely believe in America's support for this will the appeal of Hamas's brand of extremism begin to diminish.

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Torture

How to lose friends and alienate people

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From The Economist print edition

The Bush administration's approach to torture beggars belief

THERE are many difficult trade-offs for any president when it comes to diplomacy and the fight against terrorism. Should you, for instance, support an ugly foreign regime because it is the enemy of a still uglier one? Should a superpower submit to the United Nations when it is not in its interests to do so? Amid this fog, you would imagine that George Bush would welcome an issue where America's position should be luminously clear—namely an amendment passed by Congress to ban American soldiers and spies from torturing prisoners. Indeed, after the disastrous stories of prisoner abuse in Abu Ghraib, Guantánamo Bay and Afghanistan, you might imagine that a shrewd president would have sponsored such a law himself to set the record straight.

But you would be wrong. This week saw the sad spectacle of an American president lamely trying to explain to the citizens of Panama that, yes, he would veto any such bill but, no, “We do not torture.” Meanwhile, Mr Bush's increasingly error-prone vice-president, Dick Cheney, has been across on Capitol Hill trying to bully senators to exclude America's spies from any torture ban. To add a note of farce to the tragedy, the administration has had to explain that the CIA is not torturing prisoners at its secret prisons in Asia and Eastern Europe—though of course it cannot confirm that such prisons exist.

The nub of the torture debate is an amendment sponsored by John McCain, a Republican senator who was himself tortured by the Vietnamese. The amendment, based on the American army's own field manual and passed in the Senate by 90 votes to nine, states that “no individual in the custody or under the physical control of the United States government, regardless of nationality or physical location, shall be subject to cruel, inhuman or degrading treatment or punishment.” Mr McCain's aim was simple enough: to clear up any doubt that could possibly exist about America's standards.

That doubt does, alas, exist—and has been amplified by the administration's heavy-handed efforts to stifle the McCain amendment. This, after all, is a White House that has steadfastly tried to keep “enemy combatants” beyond the purview of American courts, whose defence secretary has publicly declared that the Geneva Conventions do not apply to the battle against al-Qaeda and whose Justice Department once produced an infamous memorandum explaining how torture was part of the president's war powers. The revelation in the *Washington Post* that the CIA maintains a string of jails, where it can keep people indefinitely and in secret, only heightens the suspicion that Mr Cheney wants the agency to keep using “enhanced interrogation techniques”. These include “waterboarding”, or making a man think he is drowning.

Although Mr Cheney has not had the guts to make his case in public, the argument that torture is sometimes justified is not a negligible one. Khalid Sheik Mohammed, presumed to be in one of the CIA's “black prisons”, is thought to have information about al-Qaeda's future plans. Surely it is vital to extract that information, no matter how? Some people think there should be a system of “torture warrants” for special cases. But where exactly should the line be drawn? And are the gains really so dramatic that it is worth breaking the taboo against civilised democracies condoning torture? For instance, Mr McCain argues that torture is nearly always useless as an interrogation technique, since under it people will say anything to their tormentors.

If the pragmatic gains in terms of information yielded are dubious, the loss to America in terms of public opinion are clear and horrifically large. Abu Ghraib was a gift to the insurgency in Iraq; Guantánamo Bay and its dubious military commissions, now being examined by the Supreme Court, have acted as recruiting sergeants for al-Qaeda around the world. In the cold war, America championed the Helsinki human-rights accords. This time, the world's most magnificent democracy is struggling against vile terrorists who thought nothing of slaughtering thousands of innocent civilians—and yet the administration has somehow contrived to turn America's own human-rights record into a subject of legitimate debate.

Mr Bush would rightly point out that anti-Americanism is to blame for some of the opprobrium heaped on his country. But why encourage it so cavalierly and in such an unAmerican way? Nearly two years after Abu Ghraib, the world is still waiting for a clear statement of America's principles on the treatment of detainees. Mr McCain says he will keep on adding his amendment to different bills until Mr Bush signs one of them. Every enemy of terrorism should hope he does so soon.

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Ethiopia

When aid darlings lose their shine

Nov 10th 2005
From The Economist print edition

AFP

Ethiopia poses a test of resolve for Western donors but also for Africans themselves

FOR those in the West who believe that African governments have nothing to offer their people but corruption and poverty, oppression and tear-gas, there has been plenty to lighten their step recently. On Tanzania's semi-autonomous island of Zanzibar, the security forces shot and beat protesters after a rigged election gave victory to the ruling party. In Uganda, President Yoweri Museveni, in power since 1986, has used a massive parliamentary majority to change the constitution to let him run for another term of office after next year's presidential election, raising the spectre of a return to dictatorship. And, most egregiously, last week the Ethiopian security forces shot dead 46 mostly unarmed people and arrested thousands more, who were protesting against flawed elections in May that also kept the ruling party in power.

What has been most disheartening for those who are always looking for glimmers of hope in Africa is that all three of these countries' leaders have been lauded as the torch-bearers of an African renaissance, and showered with money and praise by Western governments. Mr Museveni and his Ethiopian counterpart, Meles Zenawi, have, in particular, become the West's leading aid darlings. Ethiopia is the single biggest recipient of foreign humanitarian aid on the continent. And Mr Zenawi and President Benjamin Mkapa of Tanzania were the two African leaders chosen by Tony Blair to sit on his grandiose Commission for Africa, designed to “support the best of existing work on Africa.”

Tanzania and Uganda may become hotter issues again soon, but Ethiopia is now causing the most concern. Since a general election in the summer, when some 36 people were shot dead, a tense stand-off with the opposition had prevailed. But last week's killings, beatings and arrests have deepened the crisis. Some of the protesters have been violent but the Ethiopian authorities' response has been grossly disproportionate. The country is braced for more bloodshed.

To make matters worse, Ethiopia's domestic crisis coincides with a heightening of tension along its disputed border with Eritrea. Here again, Ethiopia has been given too soft a ride by its Western friends and donors. Under an international ruling after a border war between the two countries in 2000, Ethiopia was supposed to return the town of Badme to its neighbour but has yet to do so. In response, a frustrated Eritrea has been making some aggressive moves along the border. The danger is that Ethiopia's beleaguered government could be tempted to ignite another nasty little border war with a neighbouring country in order to rally support back home.

So it is essential that Mr Zenawi be reined in. The United States and the European Union have asked his government to stop using lethal force against the opposition, to hold an inquiry into last week's deaths and to free all political detainees. Britain, one of Ethiopia's main donors, is backing up its words by “putting on hold” its last tranche of direct aid, worth £20m ($35m). But Western donors now face a familiar dilemma: cutting off aid to a nasty regime usually hurts the poor people who actually need it a lot more than their nasty rulers do.

Africa for the Africans

So it is time for Africa to act too. The African Union, whose headquarters is in Ethiopia's capital, Addis Ababa, has been shamefully quiet about the violence in its host country since May. African leaders have been extolling the union's new vitality, for instance by vaunting its ambitious (though not yet effective) peacekeeping operations in such places as Sudan's war-ravaged Darfur province. But until the union starts to challenge transgressors like Mr Zenawi, it will not be taken seriously, nor does it deserve to be. It has commendably set up a peer-review mechanism to monitor problem countries but has so far applied it only to relatively contented ones. The union has already shrunk from taking on Robert Mugabe's wretched Zimbabwe. Now it must have the guts to tackle Mr Zenawi's Ethiopia—or look ridiculous.

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On financing terrorism, guns, India, Cambridge, the European Union, Russian folklore

Nov 10th 2005
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Follow the money

SIR – Your report on financing terrorism does a disservice to a critical subject ("Looking in the wrong places", October 22nd). Trailing terrorists' money offers up-to-date, reliable intelligence, as well as an opportunity to strike at their support lines. While individual attacks may be inexpensive to mount, terrorist organisations could not survive without financial networks to fund recruiting, training, travel, bribes and to pay operatives. Safeguards and scrutiny by financial institutions have made it increasingly difficult for terrorists to exploit the formal financial sector. Accordingly, terrorists have been driven to more primitive methods of raising money (such as through criminal activity) and moving money (such as bulk cash smuggling) which are slower and more cumbersome and expose them to detection.

Another misguided accusation in your report focused on the Patriot Act's Section 311, a significant tool that allows us to protect the United States' financial system from foreign financial institutions that facilitate money laundering or finance terrorism. Even a cursory examination of the institutions that have been so designated reveals patterns of complicit or reckless activity that are leagues beyond a failure to "properly share information". Our partners on the financial front-lines have shown tremendous resolve in the fight against terrorist financing and our continued joint focus remains vital to our success and security.

Stuart Levey
Under-secretary, terrorism and financial intelligence
Department of the Treasury
Washington, DC

SIR – You highlighted the high cost of compliance with anti-money-laundering regulations (AMLR). Earlier this year, we commissioned research that confirms many of the points you raise, in particular the perception that we now have enough AMLR for the level of risk and reward involved. However, what we lack is adequate feedback to the financial services community about the effectiveness of AMLR. The way forward for all of us who support anti-terrorism work is better information about what helps the authorities and what doesn't. While regulators and authorities are clearly trying to help stop terrorism, crime and tax evasion, they owe their unpaid enforcers (the financial services industry), and partial beneficiaries (ditto), the benefit of feedback about what works.

Michael Snyder
Chairman
Policy and resources committee

Corporation of London
London

Jumping the gun

SIR – Do you expect anyone to believe that, while in the ever more peaceful city of Chicago 65% of murders are gang-related ("They had it coming", October 22nd), in Brazil most murders are perpetrated by "ordinary people who kill on impulse" ("Protecting citizens from themselves", October 22nd)? Supporters of government restrictions over individual freedoms on gun control should not do so based on numbers cooked up by one side of the debate. But if your Chicagoan readers wish to trade their cruel gangsters for our more civilised ones, who you say often rob at gunpoint yet rarely shoot, we would certainly be willing to talk.

Ricardo Fibe Gambirasio
Rio de Janeiro

Taking the shine off India

SIR – India's plan to move forward at a rapid rate has been thwarted by the petty politics of the left ("Democracy's drawbacks", October 29th). They take credit for populist policies while discrediting the government for taking bold and fiscally prudent decisions. The Communists are not concerned about the growth of India as a whole as they're satisfied with their constituency of non-taxed agriculture workers and unproductive trade unions. What has been disappointing is the lack of courage that the Congress party, the largest party in the coalition, has displayed to counter this. Far from being in charge, they've allowed the Communists to dictate terms to them.

Vishal Bhargava
Mumbai

SIR – You write that India's people have chosen representatives who have questioned dramatic economic reforms. You write that the ruling coalition has had to reconcile those views and that some of the opponents of reform have begun to agree to faster changes as they face the realities of trade-offs. You write that India's economy is growing strongly and its stockmarket is rising. I noted a typo in the headline, which I assume should have been "Democracy's attractions".

Bruce Gilley
Princeton, New Jersey

Delving into pockets

SIR – Cambridge dons aren't begging for funds nearly enough ("Dons go a-begging", October 29th). I was a maths graduate at the university in the 1960s and the first I knew of a new £60m maths centre was from your article—I did not even see an advert asking for donations to which I would probably have responded. My wife went to an Ivy League university and I'm sure they would not have missed such an easy trick to boost donations from alumni. Do Cambridge dons still think that northern grammar-school boys are not worth the effort?

David Coles
Harpenden, Hertfordshire

Comedy or tragedy?

SIR – Having read Charlemagne's analysis of Europe's "Cassandra complex", may I add another

similarity that the European Union has to classical Greek drama (October 29th)? Both flourished many years ago and the EU, just like Greek drama, is looking increasingly likely to become ancient history.

Jack Stonehouse
Bristol

SIR – You contradict yourself on Europe all the time. You moan about the EU's democracy deficit, yet you want member states to ram through economic liberalism that most Europeans do not want. You oppose further political union, but then complain that Europeans can never pull their act together. Why don't you write an article that outlines the concrete steps the EU should take to bind the member states permanently into something that is bigger and better than the sum of its parts.

Henry Konsen
Mumbai

Necrorealism

SIR – David Roach writes from Texas of a Russian superstition that “great men never die; they simply…sleep for a while” (Letters, October 29th). This is the first I've heard of it, and the same is true of family and friends to whom I have mentioned it so far. Perhaps if you were to delve into ancient history or venture out into particularly rural parts of Russia, you would indeed find something similar to what Mr Roach describes. However, to claim that such (rather primitive) beliefs are entertained by “most Russians” is patently untrue.

Andrei Timoshenko
Moscow

SIR – Is it only me who thinks it ironic that a reader explaining why Russians believe men never die but only sleep to return at some later date should be writing from a city named Corpus Christi?

Christian Kober
Shanghai

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France's riots

An underclass rebellion

Nov 10th 2005 | CORBEIL-ESSONNES AND EVRY
From The Economist print edition

EPA

The unrest in France's cities shows that social and policing policy has failed, as well as integration

Get article background

THEY rammed a car into the local McDonald's, set it alight, and scarpered. In the daylight, the charred skeleton of the roof now hangs precariously beside the empty children's slide. Across the road, riot police face a group of hooded youngsters outside the treeless estate of Les Tarterêts. Amid this destruction, a billboard on what remains of the roof carries a painfully incongruous message: “What you were not expecting from McDonald's”.

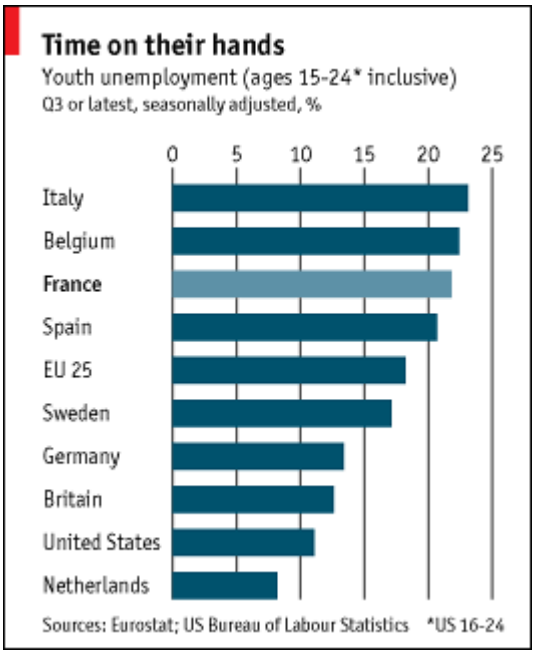
For nearly two weeks, the unrest that began in one suburb north-east of Paris has spread around the capital's periphery and, lately, to scores of cities across the country. In scenes that have rocked France and are broadcast nightly on television, more than 6,000 vehicles have been set alight in nearly 300 towns; over 1,500 people have been arrested; one man has died.

It is the worst social turmoil the country has seen since the student-led unrest of 1968, and the government has appeared powerless to contain it. It took President Jacques Chirac ten days to appeal publicly for calm. After an emergency cabinet meeting this week, Dominique de Villepin, his prime minister, declared a state of emergency, invoking a 1955 law that allows a curfew to be imposed in troubled areas and which—with unfortunate symbolism—dates from the war in Algeria.

Two incidents triggered the rioting. On October 27th, two teenagers—one of North African origin, the other of Malian—apparently believing themselves pursued by the police, were electrocuted in an electricity substation in the suburb of Clichy-sous-Bois. A few days later, as trouble spread, a

riot-police tear-gas grenade ended up—under unexplained circumstances—inside a prayer hall in Clichy. With no official explanation for either episode, rumour and indignation spread in equal measure.

This rapid domino effect reflects two broader failings and two policy problems. First, the mass unemployment that persists in a welfare system supposedly glued together by “social solidarity”. Second, the ethnic ghettos that have formed in a country that prides itself on colour-blind equality. These problems have been worsened in recent years by a deliberate hardline policing policy, and by disputes over how best to accommodate Islam in France.



The bleak high-rise estates that encircle the French capital have long been neglected in more ways than one. Physically removed from the elegant tree-lined boulevards of central Paris, they house a population that is poor, jobless, angry and, mostly, of north African or west African origin. France's overall jobless rate of nearly 10% is worrying enough; its latest youth unemployment rate of 23% is among Europe's worst (see chart). In the “sensitive urban zones”, as officialdom coyly calls them, youth unemployment touches a staggering 40%.

For all young people in France these days, proper jobs are scarce. As Mr de Villepin has acknowledged, 70% of all new contracts are now only temporary, and half of those last less than a month. For young people, the figure is four-fifths. The reason is what economists call an “insider-outsider” labour market: full-time permanent jobs are so protected by law that employers try not to create many, preferring instead temporary workers or interns whom they can shed more easily when times get tough. This suits the insiders, particularly those on sheltered public-sector contracts. But it leaves a whole swathe of youngsters with the very sensation of insecurity that the social system is designed to prevent.

Integration's failings

Worse still, for those whose name is Hasim or Omar, or whose address carries the 93 postcode of Seine-Saint-Denis—the department covering the northern Paris suburbs, including Clichy-sous-Bois—securing even an interim job is a struggle. Since official French statistics do not record ethnic origin, figures are imprecise. But according to a report last year by the Institut Montaigne, a think-tank, the unemployment rate of “visible minorities” is nearly three times the national average. Young women seem able to get and hold down jobs; but many job applications from young men end up unread in the bin. This is why Claude Bébéar, the president of the Institut Montaigne, has proposed that CVs should be anonymous.

Discrimination against minorities is particularly awkward in France because its model of integration does not recognise that such minorities exist. Some 40-50 years after emigrants from its north African colonies stepped off the boat in Marseille, there is no hyphenated term for their French-born children or grandchildren. Hence the continuing, but inaccurate, use of “immigrant” as a proxy. Yazid Sabeg, author of the Institut Montaigne report, prefers “visible minorities” to cover the estimated 5m-6m French residents of north African origin (or roughly 10% of the population), who are mostly French. France, he says, needs to acknowledge its multiracial complexion by adapting its vocabulary, rather than hiding behind “the myth of republican equality”.

This is not just a matter of semantics. France's integrationist approach relies on individuals clambering up the ladder by themselves. Yet this meritocratic theory clashes with the reality of segregation and poverty. The current riots, says Manuel Valls, mayor of Evry and a Socialist member of parliament, “are the consequences of 30 years of ethnic and social segregation” resulting in what he calls “territorial apartheid”, combined with the “bankruptcy of the model of integration: in France, our social elevator is blocked.”

France has never been shy to articulate what the country stands for and what it expects of its citizens. The ban in 2004 on the Muslim headscarf in state schools, not to mention the frequent expulsion of radical imams, make its philosophy crystal clear. Given the fresh emphasis on citizenship in multicultural countries, this is in some ways a strength of the French system. Yet, at the same time, the failure of minorities to get far up the social ladder shows the limits of the French model.

At the top end, the contrast with multicultural Britain is noticeable. There are now 15 British members of parliament from ethnic minorities, including Muslims; some of the best-known broadcasters are black or brown. In France, aside from those representing its overseas territories, there are no minorities in parliament. French television news anchors are almost exclusively white, as is much of the police force. Role models with credibility tend to be entertainers or sports stars. As Nicolas Sarkozy, the interior minister and head of the ruling UMP party, often says: “If we want young Muslim offspring of immigrants to succeed we need examples of success, and not only from football.”

France has no monopoly on isolated ghettos with high unemployment. But this trouble has been long brewing. Even before the riots, car-burning had become a ritual gesture of criminal defiance in the suburbs. In the first seven months of this year, an astonishing 21,900 vehicles were torched across the country, up on the previous year. Two further factors seem to turn general malaise into chronic violence: a zero-tolerance policing policy and the stigmatisation of Islam.

Frustrations on the ground

To see how the two are intertwined, consider the neighbouring suburbs of Evry and Corbeil-Essonnes, south of Paris. Each is home to rain-streaked concrete high-rise estates; multiple faiths, tongues and colours; and the usual cocktail of joblessness, broken families, truancy and drug-dealing. Each has also, however, embarked on big renovation schemes for their worst housing projects. Evry has secured €60m ($70m) to renovate its worst estate, Les Pyramides. Two towers in Les Tarterêts, in Corbeil, are due to be demolished.

It took a week for the riots to spread there from the northern suburbs. By Monday, 416 cars had been burned and 116 people arrested in the department of Essonne, which covers these two suburbs. Two primary schools were torched in Evry, as was the McDonald's in Corbeil. The police discovered a store of over 100 Molotov cocktails, along with petrol canisters and balaclavas, in a warehouse located—believe it or not—underneath a disused municipal police station in Evry.

Not far from that stash, young men eating kebabs and *frites* at the Etoile Sandwicherie Patisserie, Spécialités Turques, are quite clear about the causes of the violence. “It's Sarkozy's fault,” says one. The police harass anybody “with the wrong skin colour,” adds another. Further down the road, at the mosque, a young man mopping the steps agrees: “The police don't leave us alone,” he says. “They stop you for no reason.”

One complaint against Mr Sarkozy is his choice of words. To call the rioters “scum” may go down well on the right, but was sheer provocation for the youths on the streets. The other broader grudge against him is his tough policing methods. These were introduced in 2002, when he was

first made interior minister, to counteract a widespread feeling of insecurity. Mr Sarkozy cracked down on illegal immigrants and prostitutes, forbade “hostile gatherings” in the entrance halls of buildings and armed the municipal police with Flash Ball rubber pellets.

Yet the price is that young minorities feel victimised as never before, rather as Afro-Caribbean Britons did ahead of the 1981 Brixton riots, which led to a shake-up of British policing. Official complaints are few, as many are afraid to lodge them. But given the rage felt against *les keufs* (street slang for *les flics*, or cops), copycat riots, however mindless, became a chance for young minorities to get their own back.

The role of Islam in the rioting is more complicated. Some commentators see signs of a *jihad* on the streets of Paris. Ivan Rioufol, a columnist for *Le Figaro*, called it “the beginnings of an *intifada*”. Yet intelligence sources suggest that this is not organised violence but anarchic rioting, helped by internet and mobile-phone contact. Roughly half of those arrested have been teenagers, most of them in their own suburbs, since they lack the transport to go anywhere else. Even in Evry, where the petrol-bomb store was uncovered, officials say that the teenagers involved were petty criminals, not radicalised fanatics. This was the angry rebellion of a beardless, Nike-wearing teenage underclass.

Many of the country's Muslim clerics agree. “This is not about Islam,” declares Khalil Merroun, rector of the Evry mosque. “The rioting youths have no notion of Islam or what the Koran

teaches." The Union of Islamic Organisations of France (UOIF), a hard-talking group, has issued a *fatwa* forbidding Muslims from taking part in the violence. Some local Muslim associations have been organising night-time patrols to try to calm the rioters.

At the same time, the Muslim background of many of the rioters is a factor. France boasts Europe's biggest Muslim population, and has had more trouble digesting this minority than any that arrived before it. Young Muslim men in particular seem to feel emasculated by their failure to get jobs like their sisters, victimised by the police and unrepresented by the society they live in. Ready potential recruits, in other words, for seductive ideologies such as radical Islam.

Of the country's 1,500 or so mosques or informal prayer places, some 50 are run by radical Islamists, according to a report last year by the Renseignements Généraux, a domestic intelligence-gathering service. Of those, 30 are in or near Paris. Officials are particularly concerned by French Muslims now in Iraq, and by recent converts, especially those who found their faith in prison; over half the country's prison population is Muslim, according to a study by Farhad Khosrokhavar, a sociologist.

It was partly to try to bring Islam out from the shadows, and to co-opt its tough-talking leaders, that Mr Sarkozy set up the French Council of the Muslim Faith (CFCM) in 2003. The idea was to give Islam an official voice, and to temper it by offering recognition. In one sense, this has worked. Although the component factions on the council have spent much time squabbling, the CFCM helped the government with its headscarf ban by deciding not to contest it. Even the UOIF's decision this week to issue a unilateral *fatwa* was a useful appeal for calm. But the worry now is that radical groups, unrepresented on the council, may exploit the current anger.

While the suburbs burn

When the French rejected the European Union constitution earlier this year, it seemed at the time to be the final humiliation for Mr Chirac. Less than six months later, his government has been making headlines around the globe for its inability to control the riots. The referendum rejection was seen as a wake-up call for the governing class from an electorate that was fed up and fearful. Now France has delivered one even more shrill.

Even assuming that the rioting begins to work itself out, no mainstream politician is likely to emerge unscathed. The far right will surely gain support. But the Socialist Party has been too split to offer any sensible suggestions. And the centre-right government has been left looking impotent, confused and more engrossed by the undeclared contest between Mr de Villepin and Mr Sarkozy ahead of the 2007 presidential election than by the need to formulate social policy.

For Mr Chirac, the riots have underlined how removed he appears from the daily lives of people only a few kilometres from his doorstep. In his 11th year in the presidency, the sudden discovery of the blighted suburbs appears disingenuous. Mr de Villepin comes out little better. In October, having faced down striking workers, he had appeared to gain authority. But the riots have diminished it. His decision to declare a state of emergency was greeted as too late or too drastic; his promise of more policemen, more jobs, more apprenticeships, more money sounded all too familiar.

Reuters

Neither de Villepin nor Sarkozy speaks the right language

Harder to judge is how Mr Sarkozy will fare. His social-policy mantra is “firmness but fairness”: acting tough on security while being fair towards minorities. This is how he explains the logic of his policy of cracking down on illegal immigration with one hand, while with the other advocating “positive discrimination” to promote ethnic minorities. Such ideas have the merit of raising hard questions about racial equality in France, though they are viewed as “unFrench” by both left and right. When Mr Sarkozy named the country's only “Muslim” prefect, and labelled him as such, he was lambasted for pushing the country towards multiculturalism.

So far, Mr Sarkozy has managed to tread a road between what might be called social authoritarianism and progressive liberalism. But he may get tangled in their contradictions. The political right certainly approves of his tough talk. And he has at least had the courage to head to the suburbs at night to try to calm things down. But he has been no more effective at that than anyone else. A poll carried out for *Paris-Match* magazine during the rioting suggested that his popularity had dropped relative to Mr de Villepin's.

Back in Evry, frustration runs high on all sides. At the mosque after midday prayers, one man considers the burning of McDonald's fair game—“It's American”—but is outraged at the torching of the primary schools. In the town hall, officials are distressed that their efforts to improve the worst estates have not deflected trouble. All agree that something in France has to change. “If the young are to get to love France,” reflects the mayor, Mr Valls, himself of immigrant Spanish origin, “France has got to learn to love them.”

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The off-year elections

At last, something for the Democrats to cheer about

Nov 10th 2005 | BOWLING GREEN, VIRGINIA AND NEW YORK
From The Economist print edition

A good night for them in California, New Jersey and, especially, Virginia. But does it have any relevance for the more important contests in 2006 and 2008?

Reuters

IF YOU walked into a hunting-goods shop in Virginia on election day and saw a rifle lying unattended on the counter, next to an ad for “Black Bear Taxidermy” services, you'd guess there were Republicans nearby. Sure enough, the manager, Rich Lunoe, said he planned to vote for Jerry Kilgore, the GOP candidate for governor of Virginia, on November 8th. But he didn't sound terribly excited about it.

“It's hard to believe any of [the candidates],” he said. “They all say what they think people want to hear.” Mr Lunoe tried to read the papers to find out what policies were on offer, but ended up going fishing instead. And he found the campaign's tone off-putting. “All it is is a bunch of mud-slinging,” he decided.

Mr Kilgore was duly thrashed—46% to 52%—by a bland Democrat named Tim Kaine. On the same day in New Jersey, another Democrat, Jon Corzine, won the governorship by an even wider margin. California's Republican governor, Arnold Schwarzenegger, though not up for election himself, received a raspberry from voters, who rejected all his ballot propositions (see article). Michael Bloomberg's re-election as mayor of New York was the only bright spot for Republicans in what was otherwise a miserable day.

How bad were the off-year elections for the Republican Party nationally, and how bad for George Bush? Pretty bad, reckon some. If the party can't fire up enough conservative white males to carry a red state like Virginia (which Mr Bush won by nine points in 2004), it is in trouble. The Republican base has not deserted Mr Bush, but some of its members feel uneasy about his record. Mr Lunoe said he liked the man in the White House, but was worried about “this crazy Iraq thing”.

Before the results were known, Mr Kaine said the Virginia race would be decided on state, not national issues. But he added that Mr Bush's problems—the president's approval ratings are below 40%—would probably help him. Other Democrats were more blunt. Mr Corzine taunted his Republican opponent, Douglas Forrester, as “George Bush's choice for governor”. The *Daily Kos*, a liberal blog, suggested that Democrats should pay Mr Bush's travel expenses in the run-up to next year's mid-term elections, since the president “clearly help[s] us more than [his] own guys”.

Mr Bush did not in fact campaign for Mr Forrester. But, in a gamble, he did fly into Virginia on the eve of the election to stump for Mr Kilgore, whom he described as “a man of character and integrity”, who “doesn't have a lot of fancy airs”.

AP

Warner the winner

Republicans argue that their losses this week were not disastrous. They never had much chance of winning New Jersey, and Virginia is not as reliably red as people think. Virginians have now elected a governor from the party that does not hold the White House seven times in a row. Besides, Republicans easily held on to the Virginia state legislature this week.

Many voters in both Virginia and New Jersey appeared more exercised by local issues than

national ones. Larry Foster, who is black and works for a medical-waste-disposal firm in Richmond, Virginia's state capital, said he liked Tim Kaine because “he's doing things for the people in the communities.” As an example, he cited a programme to provide pre-schooling a year early for poor children, which “releases a lot of families with a single mother at home”. On the other side, Caroline Roberts, a housewife in a prosperous Richmond suburb, said Mr Kaine was a “terrible liberal” who had raised property taxes unjustifiably when he was the city's mayor. Up in New Jersey, Mr Corzine campaigned as a proud liberal, attacking Mr Forrester's promise of quick big cuts in local property taxes and vowing to balance the books while also supporting generous social programmes.

Both governors' races were exceptionally dirty. Mr Kilgore was perhaps the worst offender. His positive ads were cheesy and uninformative: his two young children appeared in one to explain his education policies, stumbling cutely over the word “accountability”. His negative ads were more numerous, more manipulative and sometimes flagrantly dishonest.

In one spot, a father whose son was murdered complained that Mr Kaine, a former lawyer, “voluntarily represented the person who murdered my son. He stood with murderers in trying to get them off death row.” He then added that “Tim Kaine says that Adolf Hitler doesn't qualify for the death penalty.” In fact, Mr Kaine said nothing of the sort, and though, as a Catholic, he says he opposes the death penalty, he promised to enforce it “because that's the law”.

Not that Mr Kaine was exactly saintly himself. His ads suggested that Mr Kilgore refused to crack down on illegal drug-making because he was beholden to the firms that make the (legal) ingredients from which methamphetamine can be cooked.

In New Jersey, both candidates went into the race hoping to keep it positive. But by the closing days, a desperate Mr Forrester was flooding the airwaves with withering quotes from Mr Corzine's ex-wife, while the Corzine campaign was calling Mr Forrester a liar and an extremist. It was “the slimiest state campaign in memory”, said the *New York Post*, admiringly.

Those who know them say that Messrs Kilgore, Kaine, Corzine and Forrester are all decent and intelligent men. Why did they campaign so shabbily? To win, of course. But too much nastiness can be counter-productive. Mr Forrester's ten-point losing margin suggested a backlash against his final television spots quoting the former Mrs Corzine as saying that her ex-husband had “let down the family, and [will] probably let New Jersey down too”. And though Virginians love the death penalty, many told pollsters they were repelled by Mr Kilgore's Hitler ad.

Both races were also hugely expensive. Mr Kilgore and Mr Kaine spent more than $40m between them, while Mr Corzine (a former Goldman Sachs boss) is reckoned to have spent more than $40m of his own money. This was only five years after he spent $63m winning a seat in the Senate, a job which soon bored him. Mr Forrester, half-owner of a health-care business, is thought to have spent around $30m.

Indeed, one lesson from this week's elections is that campaign-finance rules restricting how candidates can raise and spend cash actually helped men like Mr Corzine, who is so rich he doesn't need to solicit other people's money. Which brings us to perhaps this week's biggest winner: Mark Warner, the extremely rich outgoing governor of Virginia.

Mr Warner made close to $200m from mobile phones—a nice war chest if he runs for president, which he clearly wants to. A pragmatic Democrat, he enjoys approval ratings of 70% in Virginia despite raising taxes. The state's one-term limit for governors requires him to step down, but he can now boast that he got his deputy elected on his coat-tails. He campaigned hard for Mr Kaine, whose main promise was more of the same. Since Virginia is doing pretty well, voters bought it.

The last two Democrats to reach the White House were charming southern governors. Mr Warner's stealth campaign to slow down the coronation of Hillary Clinton has hitherto seemed somewhat quixotic; after this week's results, he seems a realistic alternative.

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A mixed night for moderate Republicans

The Arnold and Mike show

Nov 10th 2005 | LOS ANGELES AND NEW YORK
From The Economist print edition

The east-coast brand of Republican Lite sold rather better

AP

The Californian unions had a clean sweep

MR UNIVERSE has finally met his match: California's voters, preferring the arguments of the public-employee unions, this week resoundingly rejected four ballot initiatives sponsored by Arnold Schwarzenegger. The Republican governor had earlier called the vote “Judgment Day”, describing the special election as “the sequel to the recall”, the vote two years ago that sacked the Democratic governor, Gray Davis, and elevated the erstwhile cyborg to the position.

So much for the Hollywood metaphors. The sequel is a flop and the man who boasted he could sell anything failed to flog a package he had deemed “essential” to reform dysfunctional California. One proposition would have made teachers wait for five years, instead of two, for tenure; a second required public-employee unions to have the annual written permission of a union member before using that member's dues for political purposes; a third gave the governor power to cut spending across the board in a mid-year financial crisis; and a fourth moved the power to draw political districts from the legislature to a panel of retired judges.

Even though the unions and the Democrats spent a fortune on TV ads opposing the measures,

much of the blame lies with Mr Schwarzenegger. Overconfident after a honeymoon first year in office in which his approval rating soared above 60%, he carelessly described California's generally popular nurses, firemen, police and teachers as “special interests” whose butts he was “always kicking”. It was risky to demand budget-cutting powers that would also curtail spending on education (California's schools are nothing to boast about, and voters tend to be parents, too).

Above all, the governor never explained to the public why the election, costing around $50m to administer and another $200m or so in campaigning, could not have waited until next year. Showing their displeasure, the voters also rejected the four other initiatives on the ballot, including one, supported by the “pro-choice” governor, that would have banned abortions for minors without parental notification.

In the process, Mr Schwarzenegger allowed himself to be categorised as a “Bush Republican” in a liberal-minded state where Democrats outnumber Republicans. His star appearance at last year's Republican convention in New York; his campaigning for Mr Bush in the key state of Ohio; his pro-business stance and relentless fund-raising from corporate donors: together they have hurt the old image of a “Republican-lite” governor who could reach across the political divide.

Mr Schwarzenegger's discomfort must be all the greater when he looks at the easy re-election in New York City of a mayor who has remained Republican-lite. Whereas Mr Schwarzenegger (to his credit) banged on about the need for reform, Michael Bloomberg, a super-rich businessman, could point to a city moving already in the right direction. Seemingly satisfied with an improving economy, better schools and a falling crime rate, voters gave Mr Bloomberg a 20-point lead over the Democrat, Fernando Ferrer.

Mr Ferrer was certainly a less taxing opponent than California's nurses. He offered no compelling message, save for envy of Mr Bloomberg's billions. He wanted Hispanics to vote for him because he was Hispanic, Democrats because he was a Democrat. That was never going to be enough to unseat Mr Bloomberg, whose liberal social values made him a natural cross-over candidate for New York Democrats fed up with their party's left-wing local leadership. Many rich liberals kept their wallets closed to Mr Ferrer, who ended up with about $9m-10m to spend on his campaign—against the $75m or so which Mr Bloomberg could spend by signing his own cheques.

Will Mr Schwarzenegger now jump back towards the Bloombergish centre? There is already talk of some of the gubernator's more conservative advisers being ousted and a smiling Arnold was notably conciliatory on election night: “Believe it or not, I even want to thank the people who were so passionately vocal against us.” He promised an early meeting with his opponents in the search for “big ideas, radical ideas”. With the sound-system blaring out “Let the sun shine in”, the governor declared with typical chutzpah: “I recognise we need more bipartisan co-operation to make it happen.”

The Democrats, exhilarated by their success, may well be tempted to give Mr Schwarzenegger the cold shoulder. It is certainly true that a humbled Arnold is no longer a shoo-in for re-election next year. On the other hand, their own approval ratings are even lower than the governor's; and they have no candidate with his clout, with the potential exception of the eternally coy Warren Beatty. And you should never doubt the powers of reinvention of a once rather puny Austrian.

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The North Korea debate

A negotiator's lot

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Can be a frustrating one—even in Washington, DC

AS HE arrived in Beijing this week for a new round of six-party talks, Christopher Hill, the Bush administration's chief negotiator on North Korea, said he wanted to see “quick progress” towards scrapping its bombs. The North had agreed in principle to dismantle them in talks two months ago. Now America, South Korea and Japan are jointly to propose a timetable for declaring, freezing and speedily dismantling its nuclear programmes, and a list of the goodies it could expect at each stage.

Dealing with North Korea is never easy. It helps that Mr Hill has had plenty of tyrant practice, in the Balkans. But politicking over his mission within the administration is also getting in his way.

Mr Hill had originally been given some negotiating leeway by Condoleezza Rice, the secretary of state. In September, the previous round of talks almost collapsed over North Korea's demand for some new light-water reactors, which are a bit safer from a proliferation point of view, to make up for the regime giving up its older, more bomb-suited ones. Mr Hill won approval—helped by Chinese threats to blame America publicly for the talks' collapse—for four deal-making words to fudge the difference: provision of reactors could be discussed, the administration agreed, but only “at an appropriate time”.

Mr Hill has also had more freedom to meet bilaterally with his North Korean counterpart behind the six-party umbrella (Russia is its sixth spoke). He had hoped to accept a North Korean invitation to visit the country between negotiating sessions. But he was told by his bosses that he could not go without some concession from the regime—such as shutting down its plutonium-rich reactor.

North Korea is not prepared to do that. There are still faint hopes that China's president, Hu Jintao, might have extracted a behind-the-scenes promise last month from the North's Kim Jong Il to show a bit of flexibility at this week's talks. In public, however, North Korea insists that it wants to discuss building the new reactors now, with only a nuclear freeze in prospect, and disarmament to come later.

Everyone on the Bush team thinks that is a non-starter, since it replicates the failed 1994 deal with the Clinton administration that produced the latest stand-off. But the administration (and for that matter the State Department) is split on the overall strategy. One group wants to give Mr Hill some room—and at least to see if hard-nosed negotiation can produce a more lasting agreement. On the other side, Dick Cheney and the hawks think that North Korea will welsh on any deal it signs.

The hawks hope that the current squeeze on North Korea—disrupting its lucrative trade in narcotics, counterfeit dollars and missile technology—will bring a bad regime to a sticky end. But

that seems unlikely to happen soon. South Korea, impatient at the slow pace of the talks, is offering ever more generous assistance to the North. And that, Mr Hill knows, can only weaken the regime's incentive to negotiate seriously. Meanwhile, North Korea carries on making plutonium: enough, so far, for between three and nine bombs, says the Institute for Science and International Security, a think-tank.

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The Detroit mayor's race

Flame-throwing pays off

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From The Economist print edition

How to make race an issue in a contest between two blacks

KWAME KILPATRICK had to defend a grim budget deficit and shrinking city services. Although the steady slide in Detroit's economy—marked by an exodus of taxpayers to the suburbs and manufacturing jobs to the South—began long before he was elected in 2001, the young Democratic mayor has done little to halt the downward spiral.

He has also been tarred by scandals, such as questions about city credit-cards and why the city leased a nice car for his wife. That Mr Kilpatrick's challenger, Freman Hendrix, was a fellow black Democrat appeared to make it even easier for voters to choose a fresh, less tarnished face. Yet, despite being almost 20 points behind this summer, Mr Kilpatrick won an unlikely victory—and he did so in part by finding clever ways to make race an issue.

Mr Kilpatrick attacked the media, implying that its reporting of his scandals amounted to a racist campaign against him. One explosive print ad—from which Mr Kilpatrick half-heartedly distanced himself—ran a photo of hanging black corpses and claimed that a “media lynch mob” was out to get the mayor. Mr Hendrix, who at 55 is 20 years older than Mr Kilpatrick, campaigned as the safe and experienced choice: he had been deputy under the previous mayor, Dennis Archer. But Mr Kilpatrick portrayed him as a lackey of the white suburbs.

That is a powerful insult, given the racial divide between Detroit and its surroundings. The flight of white taxpayers to the suburbs has had much to do with the city's steady decline. One aspect of the chasm is a public-transport gap that does little to link Detroit—where many low-income workers do not own cars—with the suburbs, where job prospects are better. Many white suburbanites seem to like it that way. Voters in lily-white Livonia this week opted to pull out of the regional transport system, further cutting themselves off from the city.

Most older and richer black voters preferred Mr Hendrix, who would certainly have pulled in more investment for the city. Yet Mr Kilpatrick's flame-throwing campaign went down well with young blacks. Whether they will regret that remains to be seen.

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The White House's next problem

Winter blues

Nov 10th 2005 | WASHINGTON, DC
From The Economist print edition

Consumers have stopped spending. For how long?

AP

One way to keep warm

WITH big Democratic victories in this week's gubernatorial elections and approval ratings languishing below 40%, George Bush might be forgiven for thinking things could hardly get worse. That would be a mistake.

For the economic tea-leaves do not look too good either. Consumers, whose open wallets have spurred on the economy, seem to have balked. Adjusted for inflation, consumer spending fell in August and September. Thanks to a collapse in the pace of car sales, October was probably not much better. Americans bought only 14.7m vehicles last month (measured at an annual rate), the slowest pace for over seven years. Economists at Morgan Stanley reckon that overall real consumer spending probably fell at an annual rate of 4.8% between August and October, the sharpest three-month fall in 15 years.

Unsurprisingly, America's employers held their breath in October too. Only 56,000 new jobs were created last month, about half the growth that Wall Street economists had been expecting (though some of the weakness may have been related to the hurricanes as industries from retailing to hotels shed jobs).

Measures of consumer confidence have tumbled since the summer. The Conference Board's index is now at its lowest level since October 2003. According to a recent Gallup poll, 68% of respondents reckoned that economic conditions in the country are getting worse, the highest

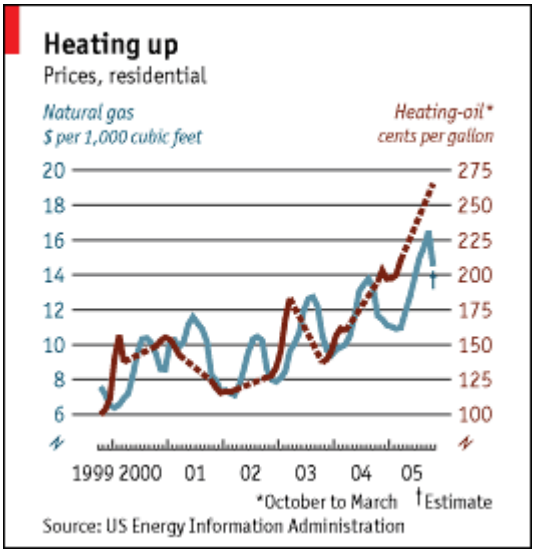
proportion of pessimists in over four years.

In many ways, neither the spending slowdown nor the consumer gloom should come as a surprise. Aggressive price cuts from Detroit pushed up car sales and consumer spending, early in the summer. But petrol prices began to soar in late August, thanks to tight global oil supplies and then the hurricanes. With a trip to the petrol station costing a small fortune (at least by American standards), people have thought twice about buying a new car.

How long will this period of consumer retrenchment last? The good news for Mr Bush is that petrol prices have fallen dramatically since their September highs. The average price for a gallon of petrol in early November was $2.38, almost 70 cents below the peak of early September. Cheaper petrol means people have more money left to spend elsewhere. And there is other evidence suggesting that the spending pause may prove temporary: although the October job figures were weak, wages increased smartly and unemployment claims remain relatively low. People may just shrug off the post-hurricane blues and go back to their spendthrift ways.

Pessimists cite three reasons for caution. The first remains the cost of fuel. Petrol prices, despite their recent fall, are still 20% higher than a year ago. More important, winter is coming, and along with it the spectre of sharply higher heating bills.

Around half of Americans use natural gas to heat their homes. Supplies are tight. A chunk of America's natural gas production in the Gulf of Mexico is still out of action and, unlike oil or even petroleum, it is hard to make up for a shortfall with imports. America does not have the facilities for large-scale imports of natural gas.



On November 8th, the Department of Energy warned that homes heated by natural gas should expect a 41% increase in their bills this winter. Heating-oil users (a far smaller number, concentrated in the north-east) should expect a 27% hike. These estimates are actually lower than the figures the boffins predicted last month, but they must frighten many poorer Americans, especially as prices could rise further in a cold winter. In 2000, the coldest winter of the past decade, natural-gas prices doubled in just six months.

A cold winter this year could have serious political consequences. America's oil companies are already receiving a roasting for their “exorbitant” profits from populist politicians, with Republicans and Democrats competing to come up with idiotic ideas, including a windfall-profit tax. On November 9th, several oil bosses were summoned to appear before Congress. Add in soaring heating bills and, potentially, freezing pensioners, and the fall-out, particularly for Mr Bush, could be nasty.

Higher heating bills would be only a short-term burden for consumers. But their impact could be exacerbated by two bigger and related shifts—rising interest rates and a slowing of the housing market.

The Federal Reserve has now raised short-term interest rates twelve times since June 2004, most recently to 4%. And the upward march is likely to continue. The central bankers seem more worried about inflation than economic weakness, and Ben Bernanke, who takes over from Alan Greenspan on February 1st, will be keen to cement his inflation-fighting credentials early on. Long-term interest rates are rising. Yields on ten-year government bonds are now at 4.6%,

compared with under 4% in June. The rate on a 30-year mortgage has jumped from 5.5% in June to 6.3%.

The third question is how and when these higher borrowing costs hit the housing market. Thus far, there is little systematic evidence of pain. Average prices for existing homes in September were 13.4% above their level a year ago. But there are ever more signs of trouble ahead.

Inventories of unsold houses are rising. The number of existing homes for sale is at an all-time high. The pace of mortgage applications has slowed sharply. And anecdotal evidence suggests prices may be falling in some of the most frothy markets.

The optimists may be right to blame the plunge in spending on the petrol-price spike. But put together the spectre of high heating bills, higher interest rates and the slowing of the house-price cash machine and it is hard to believe that consumers are set to embark on another binge.

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Ahmed Chalabi

The prodigal son

Nov 10th 2005 | WASHINGTON, DC
From The Economist print edition

The administration welcomes back Iraq's Adenauer

EIGHTEEN months ago American-led police raided Ahmed Chalabi's house in Baghdad, and the American secretary of state, Colin Powell, more or less accused him of deceiving the administration about Saddam's mobile biological and chemical laboratories. Many other politicians went further: the neo-conservatives' favourite Iraqi had tricked America into a war that has claimed 2,000 American lives.

This week, Mr Chalabi, now a deputy prime minister of Iraq, began an eight-day official visit to Washington. His first port of call was Mr Powell's successor, Condoleezza Rice; he is also scheduled to see Dick Cheney, the vice-president, Donald Rumsfeld, the defence secretary, Steve Hadley, the national security adviser, and John Snow, the treasury secretary.

Mr Chalabi seemed cheerfully unfazed by his change of fortune. He told a packed meeting of the American Enterprise Institute, one of his old neo-con haunts, that his relationships with the Bush administration are “friendly” and “growing” (the MIT-educated mathematician also added that they are “multi-dimensional”). He compared himself to Konrad Adenauer, who at one point was fired by the British but became chancellor of West Germany.

Not everybody was impressed. Two congressional Democrats, Richard Durbin, a senator from Illinois, and George Miller, a congressman from California, want the Senate Intelligence Committee, which is probing pre-war intelligence failures, to subpoena Mr Chalabi to give testimony. The FBI is also still investigating allegations that he leaked American intelligence to Iran. (Mr Chalabi came to America shortly after visiting Iran.)

Democrats see Mr Chalabi's visit as an ideal way to keep up the debate over how America was “lied into war”. Last week, they forced a rare closed meeting of the Senate to look into foot dragging over investigating pre-war intelligence. The unfolding trial of “Scooter” Libby, Dick Cheney's former chief of staff, will cast light on the struggle between the hawks in the vice-president's office and the Pentagon and the sceptics in the CIA and the State Department. Mr Chalabi allegedly was a key instrument for the hawks.

Why given all its other problems would the Bush administration embrace such a controversial figure? Messrs Rumsfeld and Cheney have always remained loyal to a man whom they once envisaged as the ideal leader of post-Saddam Iraq. But the more important reason is that in the mire of Iraq he is one of their better bets. Mr Chalabi, who has close relations with the Grand Ayatollah Ali al-Sistani as well as Muqtada al-Sadr, a militant cleric, helped broker the Shia alliance that dominated last January's election and helped draft the new constitution. He may be an embarrassment, but he is one that the administration has no choice but to cultivate.

Pumpkin-shooting

The meaning of America

Nov 10th 2005 | MILLSBORO, DELAWARE
From The Economist print edition

Where men are men and pumpkins are nervous

IF THE United Nations were to send weapons inspectors to Delaware, they would find a surprising number of superguns being assembled in backyards. If interrogated, the unshaven men tinkering with these enormous weapons would say they were building devices for hurling pumpkins great distances. The men from the UN would doubtless find this hard to believe.

Citius, altius, fortius

Every year since 1986, near Millsboro, the Punkin Chunkin has been held. Last week, 100 teams vied to see whose machine could toss an 8-10lb (3.6-4.6kg) pumpkin farthest. There were various categories: air cannons, trebuchets, pedal-powered doohickeys. No explosives are allowed—a galling rule to some contestants. But the biggest air cannons, with barrels up to 150 feet (46 metres) long, can shoot their fruit projectiles most of a mile, making each one what one spectator called “one heck of a peashooter”.

Need one spell out that virtually all the competitors are male? Dorothy Blades, a member of a rare all-female team of chunkers called the Dragon Ladies, (whose cannon, hard hats and gloves were all a tastefully matching shade of pink), thinks men crave the sense of power that only blasting a pumpkin into orbit in front of a large crowd can provide. “Plus it's a drinkathon,” she adds.

It is not just that men like shooting things. Many of them also like fiddling with big gadgets. And the Punkin Chunkin shows what can be achieved when hundreds of mechanically adept minds focus on one utterly pointless objective. The hydraulics on those air cannons must be just so, as must the springs on the catapults. The machines' names must be either macho (eg, “Second Amendment”) or crude (eg, “Chunkin Up”). Distances must be measured with a hand-held GPS system that gives readings to the nearest hundredth of a foot. After each pumpkin lands, eager men on quad bikes zoom around looking for the crater and then start triangulating.

All in all, Punkin Chunkin is a symbol of what makes America great. Only in the richest country on earth could regular guys spend tens of thousands of dollars building a pumpkin gun. Only in a nation with such a fine tradition of inventiveness, not to mention martial prowess, would so many choose to. And only in a land of wide open spaces would they be able to practise their chunkin without killing their neighbours. Alas, the 285-acre cornfield where Punkin Chunkin has been held for the past 20 years is soon to be sold and developed. But the chunkers will probably move to Maryland.

Lexington

St Bill of the right

Nov 10th 2005
From The Economist print edition

The movement that William Buckley created is being spoilt by success

THESE days American conservatism is such a hydra—a monster with heads everywhere from the White House to Congress and from the Supreme Court to the fourth estate—that it is easy to forget the two most important things about the beast's origins. First, it is a relatively youthful creature. While “liberals” have been around since Benjamin Franklin was a boy, conservatives were born with the baby boom. Second, it has remarkably few begetters, certainly for such a permissive age. The most important, Ronald Reagan, died last year. The second most important, William Buckley, celebrates his 80th birthday this month.

A harpsichord-playing east-coast patrician whose list of favourite saints would surely include Moritz and Tropez might seem an odd figure of worship for a populist, often downright plebeian, movement rooted in the strip-malls of the West and the South. Yet, more than anybody else, it was Mr Buckley who rescued conservatism from obscurity and ignominy. When he founded the *National Review* in 1955, Eisenhower's Republican Party was as adamantly middle-of-the-road as it was middle-brow. As for right-wing activists, most were certifiable: convinced that Eisenhower was an agent of communism (the John Birchers), that Barry Goldwater was a pinko (the Conservative Society of America), that the Jews were the roots of all evil (the Liberty League), and, often, all of the above.

Mr Buckley steered conservatism out of Crackpot Alley, driving out most of the obvious lunatics and building a creed on three solid pillars—support for free markets, traditional values, and anti-communism. He also added an element of glamour. American conservatives might like to pretend

that they're Rambo types who are happier hunting their lunch than having it served up for them at Balthazar, like Jean Kerry, Hillary von Clinton and rest of the cursed liberal elite. In fact, they've always liked a little class (just look at their taste for dynasties) and in Mr Buckley they found a perfect emissary—a man who spent half his time denouncing fancy-pants intellectuals and the other half partying with them.

Yet there was substance there as well. For all his dapper ways, Mr Buckley did as much as anyone to create the current polarisation of American politics. “Middle of the road *qua* middle of the road is politically, intellectually and morally repugnant,” he once wrote. And he devoted himself to redefining the Republican Party as a party of conservative orthodoxy. This meant harassing Rockefeller Republicans and other patrician squishies who ran the party until the Reagan revolution. It also meant helping to create a conservative counter-establishment that could produce a constant supply of young firebrands.

Mr Buckley clearly succeeded beyond his wildest dreams. Throw a stone in Washington and you have a better than even chance of hitting a conservative intellectual. Switch on cable-television and you are lucky if you can escape seeing a conservative pundit. Buckley-admiring conservatives are supposedly in the majority in both Congress and the White House: George Bush recently gave an encomium to the great man at the White House to celebrate the 50th anniversary of the *National Review*.

But how much of a price have conservatives paid for their success? How much of their intellectual vitality have they lost in pursuit of partisan politics? And how much have they been caught up by an historical process that they had originally sworn to bring to a halt? If the problem for the right in Mr Buckley's youth was marginalisation, the problem today is success.

Behold the conservative pundits. Would the younger Buckley have welcomed the space given to loudmouths such as Sean Hannity (author of “Let Freedom Ring”) or Ann Coulter (“Treason: Liberal Treachery from the Cold War to the War on Terrorism”)? Mr Buckley once wrote that “conservatives in this country...are non-licensed non-conformists”. But what is “non-licensed” about people who are paid gigantic sums to spout away by conservative publishers and broadcasters? And what is “non-conformist” about churning out the same tired talking points about how liberals are traitors and fools and conservatives are patriots and geniuses?

Winning the world, losing their soul

This is not to say that American conservatives are any worse than Michael Moore and the “I Hate Republicans” crowd. The problem is that they are all much of a muchness: bit-players in a pundit industry that can't tell the difference between political debate and a Punch and Judy show. And such knockabout stuff has a way of debasing anyone who takes part in it. For instance, Jonah Goldberg is a bright young right-winger who writes for the *National Review* with the same wry wit as Mr Buckley. But Amazon.com informs us that his forthcoming book, “Liberal Fascism”, argues that “liberals, from Woodrow Wilson to FDR to Hillary Clinton, have advocated policies and principles remarkably similar to those of Hitler's National Socialism.”

And conservative pundits are people of adamantine principle compared with conservative politicians. Remember those Republican promises back in 1994 to clean up Washington? The Republican majority is now every bit as scandal-plagued and spending-addicted as the old Democratic majority, if not more so. Discretionary spending has grown by 36% in real terms since 2001. The number of pork projects in appropriations bills has grown from 2,100 in 1998 to 12,999 in 2005. Talk about winning the world and losing your soul.

Fifty years ago Mr Buckley demonstrated that the right could not galvanise American politics

unless it was first willing to put its own house in order. Today it desperately needs another bout of spring cleaning. Being spoilt by success is better than being spoilt by failure: just ask any British Conservative. But spoilt is spoilt nonetheless.

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Venezuela

Chávez squeezes the oil firms

Nov 10th 2005 | CARACAS
From The Economist print edition

A forthright abuse of market power that could eventually backfire

AP

Get article background

IF OVERHEATED rhetoric could be harnessed as an energy source, Venezuela would be well placed to survive the eventual transition to a post-oil world. “We have done nothing less than to snatch the world's biggest oil reserves from the mouth of imperialism,” the oil minister, Rafael Ramírez, told an enthusiastic audience at the foreign ministry recently. In the same room, a couple of weeks earlier, a radical academic close to the army commander, General Raúl Baduel, took a contrasting line: “If we have an anti-imperialist discourse here, why are we welcoming the chairman of ChevronTexaco?”

Both were commenting on the government's decision to force foreign oil companies, at short notice, into new contracts and a new tax regime markedly tougher than those agreed in the country's oil “opening” a decade ago, since when foreign-run fields have come to produce a third to half of Venezuela's output. The new contracts remove operational control of oilfields from foreign firms and make the firms, essentially, minority partners in state-run ventures.

For the minister, and the country's avowedly socialist president, Hugo Chávez, this marks a return to sovereignty over the country's biggest asset. Others on the left, though, think even the new, tougher terms are a sell-out. Mazhar al-Shereidah, a Venezuelan oil economist of Iraqi origin, argues that the new arrangements relieve the oil firms of all risk. It is “tragi-comic”, he says, that they are being given a so-called ultimatum to accept just the sort of joint-ventures that they have happily agreed elsewhere. Conservative regimes in Saudi Arabia and other Gulf states would not dream of letting foreign firms into their upstream business in this way, he says.

As for the companies, they are saying little. If they refuse to “migrate” to the new system, in which state-run Petróleos de Venezuela will have a 60-90% share plus operational control of the fields, they will have to quit the country by December 31st. So far, of 32 companies involved, 22 (mostly smaller) ones have agreed to the switch, even though the precise form of the new contracts has yet to be defined. The giants are holding out but the betting is that most will eventually sign.

Thanks to a planned increase in royalties from 1% to 30%, and tax at 50% instead of 34%, the state will henceforth receive a minimum 82.5% of profits, according to Mr Ramírez. With Venezuelan oil selling for almost $50 a barrel—up to five times the price when the original contracts were signed—and access to the world's remaining reserves at a premium, the companies can probably live with the consequences. Harder to swallow is a form of “negotiation” in which Mr Chávez announces take-it-or-leave-it terms on television, without warning.

Certainly, Mr Chávez is showing scant regard for the rule of law in unilaterally tearing up contracts, though experts say he has a bit more legal wriggle-room as regards increasing the tax rates on oil. However, the reality is that in recent years, oil firms have lost market power relative to countries with hydrocarbon reserves, and Mr Chávez's government is only doing the same as others worldwide, from Russia to North Africa. Most analysts in Venezuela, regardless of their politics, agree that some sort of redefinition of the terms of the oil “opening” was overdue: besides earning lustier profits than anyone envisaged when the contracts were first signed, the foreign oil firms have come under fire for using accounting wheezes to reduce their tax payments.

Leftist critics are promised that Venezuela's continuing dependence on foreign firms, and on the United States as the main buyer of its oil, is temporary. Venezuela is offering more crude to neighbouring countries—but at giveaway prices. America (where Venezuela owns a mid-sized oil distributor) is the nearest, most obvious paying customer. The state oil firms of allies such as Iran, Brazil and China (along with Spain's Repsol) have been contracted to quantify the heavy oil in the Orinoco belt, formerly classified as tar but now claimed as some 235 billion barrels. Along with 80 billion barrels of conventional crude, this backs Venezuela's questionable claim to own the world's biggest reserves.

Mr Chávez claimed last month that Venezuela had “a strong oil card to play on the geopolitical board” and that it would be played “against the world's roughest players, the United States.” While oil demand and prices are high, he may indeed hold a trump card. But if and when prices slump, as new fields elsewhere come on stream, Venezuela's natural disadvantages—its oil is heavy and sulphurous, and more expensive to pump—combined with its cavalier treatment of foreign investors may prompt the oil firms to walk away just when Mr Chávez most needs them to maintain his country's, and his regime's, principal source of revenue.

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Mexico's trade unions

Unreformed, unrepresentative

Nov 10th 2005 | MEXICO CITY
From The Economist print edition

Relatively few Mexicans join a union but their bosses still wield great power

Get article background

AFP

Still a power in the land

"LEADERS, workers", the official magazine of the Mexican Workers' Confederation—the country's largest umbrella organisation of trade unions—is written in North Korean-style rhetoric which is almost beyond parody: "Goodbye to the Great Leader" was the headline, accompanied by countless pictures of Leonardo Rodríguez Alcaine and his funeral, which mourned Alcaine's passing in August. He had taken over leadership of the union in 1997, after the death of Fidel Velázquez, who, as its head for 56 years, was also among the most powerful figures in the Institutional Revolutionary Party (PRI) which ruled Mexico for seven decades, until President Vicente Fox's victory in 2000.

The confederation is the spearhead of the "corporativist" unions which, exploiting their close links with the PRI, long promoted the interests of union leaders over those of workers and the country as a whole. As demonstrated by Mr Velázquez's half-century reign, they were undemocratic as well as deeply reactionary.

All in the past, says the confederation's new head, Joaquín Gamboa Pascoe, an old man who has spent most of his life rising through the union hierarchy. "The lack of democracy doesn't correspond to reality", he says; "Fidel Velázquez didn't rule alone, and I don't rule alone—our unions are composed of young people." Nonetheless, his subordinates look visibly nervous as their master speaks. One thing certainly has not changed: the confederation, like many constituent unions, still does not have direct elections for its leaders.

Though not as powerful as it once was, now that Mexico's economy has been partly liberalised, the confederation remains a strong political and economic force. Luis Rubio, the head of CIDAC, a think-tank in Mexico City, calls union leaders "the single most dangerous group" in Mexico. To be fair, some unions, such as the telephone workers', are seen as doing a decent job for their members. But, by and large, corporativism is alive and kicking.

The vast majority of the Mexican workforce—perhaps 50m people—do not work in the formal sector, so the poorest Mexicans do not benefit from the unions' efforts. Indeed, they suffer from higher prices for goods and services caused by the inefficiencies the unions force on industry. Figures for the formal sector vary, but Francisco Zapata of the College of Mexico reckons it contains 11m workers, of whom 7m are unionised. Only a few of these are in independent unions—most are in ones that, like the confederation, have a long, intertwined history with the PRI.

How is it that, despite the PRI's loss of the presidency and their limited membership, corporativist unions retain such power? Strikes are fairly rare but the unions can, and frequently do, bring Mexico City to a halt by blocking its main roads. They also have a perceived ability to get out the vote come election time, though not as reliably as in the past. The result, says Mr Zapata, is an ingrained script in Mexican politics in which union bosses, despite lacking popular legitimacy, are able to demand close access to politicians.

Until Mr Fox's arrival, the power of the presidency kept the unions in at least partial check. But that power, says Graciela Bensusán of the National Autonomous University, derived not from the president's official powers but from his position as head of the PRI “system”. Mr Fox does not occupy such a position, which is why his stab at reforming the labour code, in 2003, ended in such a fiasco.

The still unreformed code gives some unions control over hiring, firing and transfers. Some can gain monopoly powers to organise in a workplace, leading to the widespread existence of phantom “unions of protection”, which exist only to collect money from bosses in return for keeping real unions out. For all the overblown rhetoric in praise of their Great Leaders, the unions do a lousy job of improving the lot of the average worker.

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Canada

Kicking the habit

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A Canadian city with a drug problem seeks new answers

EARLIER this month, without a peep of opposition or controversy, Vancouver's city government became the first in Canada to advocate legalising cannabis, when its councillors voted to urge the federal government to create a legal framework to regulate its production, sale and use. The councillors have few worries about being punished for their daring by the electorate in the November 19th city elections. That is because the city is home not only to Canada's ugliest drug problems but also to a growing movement pressing for a more lenient, European-style approach to drugs.

Over the past ten years Vancouverites have grown frustrated with the open drug-dealing on the streets of the downtown east side, the deaths from overdoses and the disease spread by dirty syringes. With crime gangs controlling the trade, robberies, break-ins and murders have increased.

Five years ago, the city council realised that police action was not enough and adopted a “four pillars” strategy, of harm-reduction, prevention, treatment and enforcement. Since then, two trials unique to North America have been launched, with federal help: a safe injection site for heroin addicts and a clinic prescribing free heroin to hard-core addicts. Legalising cannabis seems to many a logical next step.

It is unclear how the federal government will respond. Under the previous Liberal prime minister, Jean Chrétien, it was moving away from simply treating drugs as a criminal matter. Two years ago, it proposed a bill decriminalising possession of small quantities of cannabis. But under Paul Martin, the current prime minister, the bill has languished at the bottom of the agenda. It is not expected to pass in the current parliament—especially since an election is likely this spring, if not earlier, and the Conservatives, who oppose the bill, lead the opinion polls. The killings of four Royal Canadian Mounted Police officers last March by an Albertan cannabis grower has reminded Canadians of the violence associated with drugs.

Even legalisation might not make organised crime abandon drugs: with British Columbia's home-grown cannabis trade worth perhaps C$7 billion ($5.9 billion) annually, even after legalisation there would still be a lucrative black market. The gangs make their biggest profits from exporting more than half their cannabis output to America. Such trade seems likely to grow: Japan is the latest market.

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Peru and Chile

An unwelcome visitor

Nov 10th 2005 | LIMA AND SANTIAGO
From The Economist print edition

Peru's Fujimori plots his comeback from Chile

AFP

Get article background

WHEN Alberto Fujimori, Peru's fugitive ex-president, left his Japanese exile to conduct his attempted political comeback from Chile, he may have hoped that sour relations between the Andean neighbours would stop the Chilean authorities from co-operating with their Peruvian counterparts' attempts to bring him to justice. But early on November 7th, hours after he had arrived in Santiago on a private jet, Chile's authorities arrested him. The day after that, a Supreme Court judge rejected his application for bail.

For Chile's government, the arrival on their turf of the former Peruvian leader—five years after he resigned by fax from Japan to avoid a corruption scandal—is an embarrassment. This is especially so since it coincides with a crisis in relations with Peru, triggered by Peru's recent approval of a law to modify the countries' maritime boundary unilaterally, to claim some rich fishing grounds.

Chile's government has sought to wash its hands of the affair by insisting it is up to the judiciary alone to decide how to respond to any request for Mr Fujimori's extradition to Peru.

Peru's current president, Alejandro Toledo, welcomed Mr Fujimori's arrest and sent senior officials to seek his extradition, on charges ranging from embezzlement to complicity in homicide. But Mr Fujimori seems to be assuming that Chile, with its history of denying extraditions, would be a safe haven from which to campaign for next April's Peruvian presidential election. Despite an extradition treaty between the countries, signed in 1932, the Peruvian government has been unable to gain the extradition of Daniel Borobio, an Argentine publicist who worked for Mr Fujimori, or of Eduardo Calmell del Solar, a former newspaper owner accused of accepting bribes from Vladimiro Montesinos, Mr Fujimori's intelligence chief.

Chile's government insists that neither Mr Fujimori nor his aides will be allowed to use Chile as a platform for electioneering. If he continues in detention in Santiago, it may earn him some sympathy votes in Peru, where popular anti-Chilean feeling is strong, but it also means that his activities will be closely supervised.

Nevertheless, the disgraced ex-president's gamble may yet pay off. Though he fell into corruption and authoritarianism towards the end of his ten years in office, Mr Fujimori also brought peace to Peru by crushing the Shining Path guerrillas, stabilised the economy and brought infrastructure to remote Andean towns. He has around 15-20% support in opinion polls, possibly enough to take him into a run-off vote. Peru's highest court has ruled that he cannot run; but he will be hoping that the election board, which nevertheless has the power to accept his registration as a candidate, will feel obliged by his continuing strong support to let him run.

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Chile

Pondering pensions

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From The Economist print edition

Ageing model requires facelift

Get article background

CHILE'S private pensions system, created by Augusto Pinochet's dictatorship almost 25 years ago, has been a model for pensions reform in many other countries. While academics have long noted various flaws—not least the high profits raked off by the six pension-fund administrators (AFPs)—it nevertheless came as a shock when a recent study suggested that over half of the Chileans affiliated to the system might not get a decent retirement income.

Declaring the pensions system “in crisis”, Michelle Bachelet, the centre-left government candidate, and likely winner, in the presidential election on December 11th, promises to send a reform bill to Congress by the end of next year.

In return for contributing around 12.4% of pre-tax earnings, salaried workers are promised a pension of 70% of working income, assuming a 4% return on investment, a target the industry has well exceeded. But the system also assumes that contributors keep paying for at least 80% of their working lives. In fact, almost half of the 6.3m-strong workforce is not currently contributing, including around 95% of the 1.4m self-employed, for whom contribution is voluntary. Many workers, especially women with family responsibilities, have big gaps in their contributions.

Many will eventually turn to the government for help: as a safety-net for those with insufficient pensions-account balances or other savings, there is a guaranteed minimum state pension worth about $150 a month. Over 3m current Chilean workers may eventually claim this, at a cost forecast to reach 1.2% of GDP by 2030. That would be manageable if the guaranteed pension were to stay this low but public pressure for a big rise is likely to intensify.

Ms Bachelet and the two presidential candidates from the conservative opposition are debating how to encourage workers to keep contributing. One possibility would be for the state to match the contributions of vulnerable groups. This would increase the immediate fiscal cost but would probably be good for the long-term public finances, since fewer would eventually need to claim the state safety-net pension.

There is also widespread criticism of the AFPs. Sebastián Piñera, one of the conservative presidential contenders, says there is insufficient competition and the administrators' costs are too high. The industry maintains that its commissions, at around 1.4% of contributions, are cheap compared with Chilean and international mutual funds'. Salvador Valdés, an academic at Santiago's Catholic University, disagrees, calling their profits “monstrous”: in the past six years, he reckons, their real annual return on operating assets has been over 50%. The industry quibbles with this figure.

The industry regulator, Guillermo Larraín, says part of the problem is that workers seem not to care about commission levels, making it hard for new entrants to break into the market without incurring enormous marketing costs. There is talk of introducing some sort of auction system to force the AFPs to lower their costs—but they argue that even if their profits were squeezed down to zero, pensions would only increase from 70% to 72% of working income. Anything that improves value for money is worth a try, though it might do more good to reform the labour laws to allow more flexible working. This would encourage firms to create more formal jobs: if so, more workers would be contributing towards their pensions.

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Japan

Meet the new salaryman

Nov 10th 2005 | FUKUOKA
From The Economist print edition

A need to attract more young people, women and the elderly will mean deep changes at companies, and even to the way cities look

Get article background

THE salaryman, the loyal, lifetime drone of big corporations and once the symbol of Japan's post-war miracle, has had a tough time in the post-bubble years. If he has not been sacked, or had his company go under, he has been asked to take cuts in pay and bonuses, and to work even longer hours. Now, with the Japanese economy's gradual recovery, the salaryman appears to be regaining some shine. For the first time since the start of the decade, the numbers in full-time employment are growing, while net recruitment for part-time employment and those on temporary contracts has come to a halt. Incomes for full-time workers are on the rise again at last. But salarymen are not exactly what they used to be.

In Fukuoka prefecture on southern Kyushu island—home to car plants, a vibrant sector of trading companies doing business with China and South Korea, and Toto, a maker of all-squirting high-tech loos—company executives admit that cuts in staff have gone too far. Salarymen have fallen from over 70% of the workforce (excluding small family businesses and the self-employed) in 1997 to just over 60% today. They say they will need to hire more full-time workers, including more new graduates, instead of simply asking existing salarymen to work longer. In some parts of the country, the shortage of workers has reached acute proportions: for instance, in Aichi prefecture in central Japan, 1.7 jobs are offered for every applicant.

The demographics of fewer births and longer lives reinforce the cyclical trend. Japan's population of 127m has probably started to shrink, and is forecast by the government to fall to 101m by

2050. The working-age population is already shrinking, and is projected to fall by one-tenth over the next two decades. By 2030, Japan will have only two workers for every retiree and, by mid-century, three workers for every two retirees.

Apart from opening the gates to immigration, a notion about as implausible in Japan at the moment as persuading women to have broods of children, raising the proportion of the population in the workforce will be the most obvious way to address the coming labour shortage. In the long run it means companies and government will have to do a lot more to attract women, the young and even the elderly into work—a revolution under way that one day will consign the salaryman as people know him to history.

Take Yazuya, a highly profitable mail-order firm selling health supplements in the city of Fukuoka. A visit to one of its offices surprises, and not just because of the plastic cartoon cats climbing up the outside wall. On the ground floor, a large space is given over to flower-arranging and dances at the weekend. A canteen upstairs serves wholesome food at low tables over *tatami* mats. The offices are bright, airy and dotted with flowers, in contrast to the usual workplace oppression. And the staff are overwhelmingly women, even at management level.

Yazuya is an exception in Japan. Female participation in the labour force, at 55%, has risen in recent decades, but lags well behind Britain (61%) and America (62%), with many women, says Kathy Matsui, an analyst at Goldman Sachs in Tokyo, dropping out completely to raise children. Less than 10% of managers are women in Japan, compared with 46% in America.

As well as a lack of role models, it is particularly hard for women in Japan to have both children and a career. Some 13% of children under three go to day-care centres, compared with 54% in America. The government plans a rise in day-care facilities, but only by a tenth. In the meantime, its chief weapon is moral suasion aimed at companies. Fukuoka has a programme that publicises best practice at companies promoting good child-care initiatives—crèches, for instance. Miyoko Yazu, president of Yazuya, stresses the importance of allowing employees to manage their own time. “Conventionally, you have to ask permission to pick up a sick child from school,” she says. “Here, people don't have to do that kind of thing.” Radical stuff, by Japanese standards.

Getting more young people to work is the next challenge. A lot of hair-pulling has gone on over youngsters unwilling to commit themselves to a full-time career. Ms Yazu maintains that the solution is to give younger employees a participatory style of management and “a sense of ownership” in what they do. In the year between a university student's recruitment and her start at work, she is sent newsletters, her uniform (designed by staff and voted on at a company fashion show) and assorted company philosophies set down by Ms Yazu's late husband that the new recruit has to memorise. A letter to her parents is a solemn undertaking that the company will “nurture” its new charge. To a western ear, this all sounds a bit freaky, but it seems to work. Departures from the company are almost unheard of.

Old people are the final challenge. From next year, the minimum statutory retirement age will be raised, in stages, from 60 to 65. Raising it to 70 would halve the rate of decline in the workforce. At present, companies show little imagination about hiring or retaining older people.

Goldman's Ms Matsui contends that bringing the female participation rate up to world norms, and raising the retirement age to 70, would each add 0.3 percentage points to annual economic growth. But changes in work trends are already making their mark on corporate and even urban landscapes. Fred Schmidt, property specialist at Morgan Stanley in Tokyo, says workers' demands for a better environment are transforming the way developers put up buildings: ceiling heights are rising, for instance, while currency traders want a Starbucks outlet on their floor. And a spate of condominium developments is aimed at the growing number of working single salarywomen. Farewell the blue suits.

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Australia

Terror show

Nov 10th 2005 | SYDNEY
From The Economist print edition

John Howard wants more police power to fight terrorism

Get article background

THE government of John Howard has issued many dark warnings of a possible home-grown terrorist attack in Australia. Yet few Australians have seemed concerned by the prospect—a happy state of complacency that was jolted early on November 8th, when police and security agents swooped in Sydney and Melbourne, and arrested 17 people on terrorism charges. What exactly they were suspected to have been plotting was unclear, though a minister for the state of New South Wales claimed Australia had been saved from a "potentially catastrophic terrorist act". At any rate, this was Australia's biggest-ever counter-terrorism operation. It has also raised the heat over a plan to introduce tougher anti-terrorism laws.

All the raids took place in out-of-town suburbs where many Middle Eastern and Muslim immigrants live. All the men arrested were Australian citizens or residents, most in their twenties. At a preliminary court hearing for the Melbourne lot, the prosecutor alleged that they were committed to waging a "violent *jihad*" in Australia. The Sydney group, he also said, had made plans for an attack, and had collected bomb-making chemicals. Given the controversy generated by Mr Howard's proposed new anti-terrorism powers, the suspects' lawyers said they doubted their clients would get a fair hearing.

The temperature was raised six days before the raids, when Mr Howard said he had "specific" intelligence about a potential terrorist threat. He recalled the Senate, Australia's upper house, to ratify a change to the criminal law that would make it easier to prosecute people for planning an attack even if its precise location is not known.

Mr Howard's critics accused him of seeking to divert attention from his unpopular effort to reform Australia's labour-relations system. On November 8th an opinion poll suggested that half of voters disapprove of Mr Howard, his worst rating for four years. More contentious has been another bill, proposed on November 3rd, which would allow police to detain suspects for 14 days without charge and fit them with tracking devices for a year. Mr Howard had wanted to push this bill through Parliament in a week; he has now been forced to give it more time. Members of his own Liberal Party raised civil-liberties concerns. The bill makes sedition a crime that can carry a jail sentence.

The raids in Sydney and Melbourne were the result of an 18-month police and intelligence investigation. By effectively blowing the whistle on the operation, Mr Howard has made himself unpopular with some police chiefs. The raids may also have suggested that, contrary to Mr Howard's frightening claims, Australia already has perfectly adequate anti-terrorism provisions. They were conducted with cool efficiency by federal and state authorities, with evidence against the Melbourne crew including 240 hours of stealthily-recorded conversations.

The Sydney police shot and wounded one detainee, after he allegedly pulled a gun on them. Mr Howard wants to give police greater shoot-to-kill powers; but Mick Keelty, chief of the Australian Federal Police, said the incident showed the powers in place were adequate. The feeling that progress is being made was also boosted by the news on November 9th that Indonesian police had killed Azahari Husin, believed to have built the bombs that killed 202 people, including many Australians, in Bali in October 2002. Over to Mr Howard: despite these triumphs by the police, and seemingly against their wishes, he must now convince a sceptical Parliament to give them yet more powers.

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Kashmir's earthquake

No shelter

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From The Economist print edition

The earthquake's survivors face imminent winter

Get article background

AT AN emergency clinic set up by the American Refugee Committee (ARC) in the rubble of the village of Ratnoi, in Pakistani-controlled Kashmir, doctors are still dealing with wounds inflicted by the devastating earthquake of October 8th, which killed more than 74,000 people. But they are seeing more and more patients with pneumonia and other respiratory complaints, as well as some serious burns cases: some of those sheltering in tents after their houses were destroyed have been trying to heat them.

Many of the clinic's visitors have tramped for hours from villages higher in the hills. Snow is forecast soon at altitudes above 5,000 feet (1,540 metres). As cruelly inevitable as the earthquake was unforeseeable, winter may be an even bigger disaster. The ARC's Louise Paterson believes 1m people are at risk of hypothermia. The UN estimates that more than 3m people were left homeless by the earthquake, that 200,000 in the higher valleys may soon be cut off by snow, and that a further 150,000 may move, to winter in the lower valleys.

It can only be a guess. The Pakistani army is urging people to move down. But many families are leaving at least some members behind, to tend livestock and protect land—all they will have to rebuild lives when spring comes. Whatever they choose to do, helping them survive the winter will be difficult. Tented camps are being erected for the internal refugees. Relief teams are visiting the higher areas distributing kits to help those who stay improvise temporary homes. One month after the quake, a massive humanitarian operation is still under way. The United Nations says the exercise will remain in the “life-saving phase” for the next five months. But it is hampered by a

shortage of money. Of $550m the UN says it needs, only a quarter has actually been raised.

Another disappointment has been the limited extent of co-operation with India. The earthquake shook both Pakistani- and Indian-ruled parts of Kashmir. Many villages on the Pakistani side would have been more easily reached from Indian-controlled territory. On November 6th, for example, a UN helicopter heading for one such village landed by mistake on the wrong side of the “line of control” that forms the border.

The next day was the date set for the opening of five crossing-points along the line, to allow divided families and relief workers to cross. This was seen as an important symbol of the improvement of Indo-Pakistan relations over the past two-and-a-half years, and of the two countries' new-found willingness to set aside their dispute over Kashmir's sovereignty in the humanitarian interests of its residents.

But only one crossing-point was ready for opening on November 7th (a second opened two days later). Pakistan blamed India for the delay, caused by the need to unblock roads closed by landslides after the quake, to clear landmines, and to process the papers of those who had applied to cross. Not one new applicant had been cleared in time. A big, disappointed crowd turned up on the Pakistani side, and was dispersed by tear-gas. An opportunity for reconciliation, once again, has become an occasion for recrimination.

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India, Iraq and Iran

Over a barrel

Nov 10th 2005 | DELHI
From The Economist print edition

The Iraqi oil-for-food scandal brings down India's foreign minister

AFP

Singh exits

THE name of Natwar Singh, India's foreign minister until forced to stand down on November 7th, does not even appear in the 630 pages of the report by the committee, chaired by Paul Volcker, a former chairman of America's Federal Reserve, into the manipulation of the United Nations' oil-for-food programme by Saddam Hussein. But he and India's ruling Congress party are listed in the appended tables as "non-contractual beneficiaries" of the Iraqi policy of allocating oil to buy political goodwill. Even this need not have entailed his downfall. What made his position untenable was his response to the accusations: a tirade against America.

Mr Singh denies all involvement in the oil scandal, and the prime minister, Manmohan Singh (no relation), has retained him as a minister without portfolio, while the government investigates. The evidence against him is circumstantial: his listing in the records of Iraq's state oil-marketing organisation; his vehement criticism of the sanctions regime that the oil-for-food programme was designed to mitigate; his visits and those of his son to Iraq; and his son's friendship with the owner of a company accused of having paid oil "surcharges"—ie, kickbacks—to Iraq.

The political opposition scented blood. Mr Singh's self-defence went beyond mere denial. He questioned Mr Volcker's independence, and portrayed the report as an attempt to discredit critics of American policy in Iraq. He derided the credibility of the present Iraqi government. He also suggested that when the International Atomic Energy Agency considers a resolution on November 24th on Iran's nuclear programme, he would advise the government to reverse its support for the American-led drive to refer it to the UN Security Council. From the foreign minister of a government whose chief geopolitical achievement is improved relations with America, all of this was very poor diplomacy.

It succeeded, however, in rallying political support for Mr Singh from the many politicians both in Congress and its coalition partners who are uneasy about the government's pro-American tilt. The Communist parties the coalition needs for its parliamentary majority also approved. Their leaders, who have thwarted radical economic reform, now say their "highest priority" is to hold the government to an "independent" foreign policy. The Iran vote is to be their litmus test.

The prime minister is standing by his "strategic partnership" with America. Natwar Singh, calling himself a "Nehruvian", a reference to the "non-aligned" foreign policy of Jawaharlal Nehru, India's first prime minister, seems to have relied on his closeness to the Congress leader, Sonia Gandhi, widow of Nehru' s grandson. He is paying the price for being more Nehruvian than the Nehrus.

Myanmar

A capital move

Nov 10th 2005 | BANGKOK
From The Economist print edition

According to astrologers, anyway

Get article background

PITY the civil servants of Myanmar. Last week, many of them showed up at work as usual to be told they would be moving immediately from Yangon, the country's seaside capital, to Pyinmana, a new-built city 200 miles (320 km) to the north. They are not being allowed to bring their families, or to resign, or even to take leave. Pyinmana is closed to outsiders, but by the few accounts that have emerged, it is only half-complete, with inadequate housing, meagre food and next-to-no communication with the outside world. Yet by April, the entire government is supposed to have relocated there.

Over the centuries, the rulers of Burma (as Myanmar used to be known) have founded dozens of new capitals—to mark a new dynasty or a new reign, to shift to safer or more fertile ground, or simply to follow the advice of astrologers. Than Shwe, the head of Myanmar's military junta, seems to be following in this tradition, for much the same reasons. Observers of the reclusive despot assume that he views the construction of a new city as a way to make his mark on Burmese history. The hilly and forested terrain around Pyinmana would be easier to defend against invasion or internal uprising than sprawling Yangon. And fortune-tellers probably had a hand in the abrupt timing: Myanmar's dictators are notoriously superstitious.

The move cements the impression that the generals are digging in for the long haul, rather than embarking on a transition to democracy, as they claim. It also lends credence to the theory that the regime is so keen to isolate itself that it is immune to international ostracism. Sequestering the bureaucracy in a remote jungle hide-out is unlikely to improve its efficiency. And what of all the people left behind in Yangon—businessmen, diplomats, aid workers and ordinary citizens—who might have some business with the government? If it's urgent, officials say, they can send a fax.

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China

It's Nottingham, but not as we know it

Nov 10th 2005 | NINGBO
From The Economist print edition

A distant prospect of Nottingham Ningbo

Foreign universities arrive in China

“THE fundamental aim of schools is to train builders of and successors to the socialist cause” is a slogan often used by officials in China. So why allow a leading British university, with no interest in training good Communists, to set up and run a campus in the port city of Ningbo? In its struggle to build its own world-class universities, and stem an exodus of students to universities abroad, China is relaxing its ideological guard. A little.

The University of Nottingham, Ningbo, is the first foreign-run university campus in China since the Communist take-over in 1949. It is a bold venture both for the Chinese officials who approved it as well as for Nottingham University, which is trying to embed itself in a system that is usually highly intolerant of western liberal values. “I can't deny there are risks,” says Ian Gow, provost of the Ningbo campus.

For all China's reservations about ceding control to foreigners, there has been no attempt to disguise the foreignness of the 39-hectare (96-acre) site. In less than 18 months, what had been an expanse of paddy fields was turned into a pleasant vista of lawns, trees, artificial waterways (“Nottingham Lake” and “Nottingham River”) and modern buildings. A shopping “High Street” and an administrative centre with a replica of the clock tower at the university in Nottingham (though with computer-generated chimes) complete the British feel. Classes are all in English.

The 550m yuan ($68m) facility was built by Nottingham's partner in the project, Zhejiang Wanli Education Group, a privately run but government-owned company based in Ningbo, one of the largest cities in Zhejiang province. It owns the assets and controls the governing board, but lets Nottingham recruit students and faculty, decide on courses and select their content, conduct examinations and confer University of Nottingham degrees. Even though subjects touch on potentially sensitive issues such as the media and international relations, Mr Gow says there has been no attempt to interfere in Nottingham's academic freedom.

Despite all the obvious benefits, an education ministry source in Beijing says the authorities remain cautious. “China is a socialist country. We require education in philosophy, politics and economics that is Marxist-Leninist,” he says. The Nottingham experience “will not be duplicated widely.” China is likely to wait to see how Ningbo, and a joint-venture university being set up in Suzhou, another city in the Yangtze delta, by Britain's University of Liverpool, develop before deciding whether to allow any others to follow suit.

A potentially tricky period passed without obvious trouble last week when the Ningbo campus conducted its first student elections. Elections to student bodies in China are normally tightly controlled by the Communist Party through its front, the Communist Youth League, to which most students belong. But at Nottingham Ningbo, students say, not only the student representatives were chosen democratically, but also leaders of the League itself.

The biggest vote-winner in the union ballot was a British graduate student, Mark Curry, probably the first foreigner to become a union president in China since Communist rule began. Some 50% of the campus's 900-odd students (the plan is to have some 4,000, mostly undergraduates, by 2008) cast their ballots in an election conducted “much more enthusiastically” than similar ones often are in Britain, says Mr Curry, a veteran of student union affairs in his home country.

The party, it appears, has decided to adopt a low profile in order to avoid embarrassing Nottingham. The campus has a Communist Party secretary—normally a crucial executive post in Chinese universities—but the incumbent is an absentee whose main work is in the city's education bureau. Ideological education—called “civics”—is limited to the year-long foundation course which Chinese undergraduates at Nottingham Ningbo undergo before starting their degree proper. It is conducted by Wanli staff.

If the project succeeds, it could be a boon for Nottingham, which wants to become a leading centre of Chinese studies in Britain and enhance its profile in a globalising educational market (though the Ningbo campus is a not-for-profit organisation). It would also be an asset for China's fast-growing middle classes. Fees at Nottingham Ningbo (50,000 yuan a year, or $6,165) may be ten times higher than at other universities in China, but that is still a third of what they would be for a Chinese student in Britain. In China, which rates poorly in international higher-education league tables, a western university degree has considerable allure, even if it is earned in Ningbo.

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Jordan

Caught in the middle, as usual

Nov 10th 2005
From The Economist print edition

A co-ordinated terrorist attack on three hotels in Amman shows that Jordan is not the oasis of calm it claims to be

Reuters

Get article background

THE vaunted tranquillity of Jordan amid the seemingly permanent instability afflicting its neighbours was bloodily interrupted this week by three bombs, probably set off suicidally, in posh hotels frequented by westerners, Israelis and the Jordanian elite in the capital, Amman. First reports said that the blasts, in the Grand Hyatt, the Radisson and the Days Inn hotels, killed at least 67 people and wounded more than 150. The Jordanian assumption—bolstered by a claim on the internet—was that al-Qaeda was responsible.

But it is easy to guess. Jordan is a vital regional ally of the United States, which promotes and bolsters the country and its 43-year-old king, Abdullah, who succeeded his late father, Hussein, six years ago, as a showpiece of economic and political progress and globalisation. With only 5m people and wedged between Israel, Syria, Iraq and Saudi Arabia (“the neighbours from hell”, as the king has privately called them), Jordan is now the world's fourth-biggest recipient of American aid.

It has also become a hub for western diplomats, businessmen, aid agencies and military people going in and out of Iraq. Moreover, Amman is the main meeting-point for expatriate Iraqis, some 400,000 of whom are reckoned to live there, some connected to the old regime and the insurgency, others to the new order struggling to assert itself. Several hundred Jordanians,

including the arch-terrorist Abu Musab al-Zarqawi, who claims the al-Qaeda franchise in Iraq, are probably fighting against the Americans across the border.

The Jordanian king took a gamble in 2003 by deciding to back the Americans in their invasion of Iraq—unlike his father, who remained neutral during the first Gulf war against Iraq in 1991, to Saddam Hussein's delight and the Americans' intense displeasure. But, despite the consequent increase in American largesse, King Abdullah's decision was generally disliked by his citizens, over half of whom are of Palestinian origin: they loathe what they see as America's bias towards Israel. Most of Jordan's so-called East Bankers (ie, those who are not Palestinian) are equally hostile to American policy, sympathising strongly with the “resistance” by their Sunni co-religionists against the new Shia-dominated order in Iraq. The most popular political party in Jordan according to opinion polls, though far from being the choice of the majority, is the Islamic Action Front, an offshoot of the Muslim Brotherhood and an admirer of the Islamists of Hamas in Israel (see article).

That is not all the king is up against. He has been backing a strongly liberal economic policy, which has annoyed the old tribal conservatives on whom the Hashemite monarchy has depended since it was installed by the British 80-plus years ago. Seeming to answer the Americans' appeal for more democratisation in the Middle East, he launched an ambitious “national agenda” earlier this year which, he said, would “lead the country into a new age where there is more press freedom, health insurance for all, an independent judiciary, a more politically active public, political pluralism, active and powerful parties with clear-cut platforms, and empowered women and youth.” One recommendation expected to be made by the committees which have been elaborating the national agenda is for a new electoral law that would give Palestinians fairer representation in parliament. That would annoy the old guard too.

As a former senior minister puts it, “he's trying to take Jordan out of the region's mentality”. But the king has met resistance across the spectrum. “We cannot afford shocks,” says the former minister. In the summer, the king's favourite moderniser, Bassam Aawadallah, an ardent liberal economist, was forced out as finance minister, partly for being too abrasive.

For all the talk of modernisation and political pluralism, Jordan is still a politely authoritarian state run by a king whose near-absolute power is underpinned by a ruthless and watchful security service. His reforms are being imposed from the top down. The press, though it breathes a bit more freely, is co-opted and still occasionally muzzled. A recent poll by the Centre for Strategic Studies at the University of Jordan found that 77% of respondents felt they could not “criticise the government without fearing punishment”, against only 16% who thought they could.

The perpetrators of this week's bombs will be hunted down without mercy. All the same, the young king knows he must be careful. Too fierce a bout of repression could backfire. Beneath its amiable surface, Jordan hosts many dangerously competing tensions.

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Israel and Palestine

The Hamas conundrum

Nov 10th 2005 | GAZA AND JERUSALEM
From The Economist print edition

Hamas is changing, and the rest of the world may have to catch up

Get article background

CAN politics make moderates of violent men? That is the debate among both local and foreign pundits as Palestinians prepare for their first legislative elections in over a decade. Their Islamic Resistance Movement, better known as Hamas, which is the main opposition to the ruling Fatah party, will take part for the first time and is predicted to win anything from a quarter to half of the seats in the Palestinian Legislative Council (PLC), as their parliament is known, on January 25th. Everyone is wondering what to do then: the United States and the European Union, who classify Hamas as a terrorist organisation; Fatah, which stands to lose its cosy, corrupt monopoly over the Palestinian Authority (PA); and not least Israel, for whom Hamas is the standard-bearer of an Islamist Palestinian nationalism that seeks to destroy the Jewish state.

Being in politics cannot but change Hamas; the question is in which direction. It began life 60 years ago as a branch of Egypt's Muslim Brotherhood, which advocated the creation of states based on Muslim law across the Middle East, and campaigned for a Palestinian state by non-violent, religious means. But with that strategy losing support, the Brotherhood formed Hamas as a militant affiliate to tap into the frustration that had exploded into the first Palestinian *intifada* (uprising) in 1987. It took the lead in developing the methods—first stone-throwing, later armed sorties, rocket attacks and suicide bombs—that drove the first and second *intifadas*; it also provided social services to needy Palestinians. All this, while the Fatah-run PA co-operated with Israel on the ill-fated Oslo accords, sporadically and brutally cracked down on militants, and slid into corruption and backstabbing that swelled Hamas's popularity. In the past year Hamas has won election to several municipal councils, and a reputation for running them cleanly and well.

That has stretched the rules of the game already. To avoid breaking their laws on contact with terrorist organisations, foreign donors who pay for municipal infrastructure projects are having to hide behind ever more transparent fig leaves. European diplomats and aid workers in Jerusalem say there is no clear policy. Many argue that it is fine because the municipalities get the money, not Hamas itself. Some say they make sure to pay contractors directly, or work through intermediary bodies in the PA, or talk only to technical staff in the municipalities, all to avoid dealing with the elected councillors. But while most consider it alright to continue projects begun before Hamas took power in a municipality, the debate will become more pressing as new projects come up.

And if Hamas wins a lot of seats in the PLC, takes charge of important committees or even (though Hamas spokesmen say there are as yet no talks on power-sharing) demands ministerial posts in the PA, then the outside world may have little choice but to deal with it. For Israel, whose destruction is still a demand of the Hamas charter, that would be anathema.

Softly, softly

Which is one reason why Hamas has been projecting a softer image this year. Its armed wing, the Izz ad-Din al-Qassam Brigades, has mostly stuck to a ceasefire agreed between militant factions in March, even after Israeli attacks (though Israel says that Hamas has commissioned some reprisals covertly from other armed groups). At home, that plays as sensitivity to *intifada*-fatigue; to foreigners, it suggests unusual discipline and pragmatism.

Meanwhile Mahmoud Zahar, Hamas's public leader in Gaza, has been cosying up to the Israeli media, granting a long interview to the *Haaretz* newspaper last month, and talking to Israeli state radio this week. Such is Israelis' horror of Hamas that even the liberal *Haaretz* headlined the interview “We will kidnap more Israelis if prisoners are not released”, though Dr Zahar had not actually made such a threat; more notable was his pragmatism, including a recognition that most Palestinians support a peace deal involving two states. “The charter is not the Koran,” Muhammad Ghazal, a Hamas leader in the West Bank, had noted a month earlier. That raised the volume on similar hints that Hamas leaders have been dropping for years.

But such changes may also be straining Hamas's usually tight unity. Israel's assassination last year of two of its most authoritative leaders, Sheikh Ahmed Yassin and Abdel Aziz Rantisi, has made differences in opinion between other figures more visible. When an Israeli missile killed (unintentionally) a Qassam Brigades man in Gaza earlier this month, two Hamas spokesmen seemed publicly to disagree over how the movement should respond.

Yet the more its role becomes political, goes a common argument, the more moderate Hamas will have to become: more accountable to ordinary Palestinians, readier to acknowledge their support for a two-state solution. As part of the PA, it will have to agree to and abide by a common strategy for the use of force. Ambitious young politicians, offered a serious career alternative to Fatah for the first time ever, will infuse Hamas with moderate voices. Hamas's internal divisions will grow; but as in Northern Ireland, where Sinn Fein gradually eclipsed the IRA, Hamas's political wing will slowly become the dominant one. It may even have to swallow the fact that, as polls consistently show, most Palestinians want a secular, not a *sharia*, state.

Israel isn't convinced. Security types note that Dr Zahar and others still talk of capturing the whole of Palestine as the ultimate long-term goal and that Hamas's parent, the Muslim Brotherhood, shares that ideal and is on the rise in neighbouring countries. Israel has arrested hundreds of Hamas members in the last few weeks, including Mr Ghazal. Ariel Sharon, Israel's prime minister, has said that Israel will do nothing to help the January elections, though after a cool response from the United States there were some backpedalling clarifications; it had never said it would actually make them more difficult, either.

But there are still doubts that the election will take place, because of Fatah infighting rather than Israeli meddling. And if it does, there are questions to be resolved on both sides, says Ziad Abu Amr, a PLC member. Can Fatah accept power-sharing? Can Hamas reconcile its independence with the responsibilities of power? Can it subjugate its militias to the PA, so breaking solidarity with other factions like Palestinian Islamic Jihad, which has been in the forefront of breaches of this year's ceasefire? Can it come up with an agenda that goes beyond resisting the occupation? If the answer to such questions is yes, he says, “the whole political system will undergo dramatic transformation.” And the rest of the world's attitude to it will have to follow suit.

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Tunisia

Hunger for change

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A showcase summit may end up advertising a muzzled opposition

THE Tunisian government usually seems to go out of its way to make the country look dull: after all, it is fairly stable and prosperous compared with most of its neighbours. It is also a staunch ally of the West in the global war on terrorism, so the Americans and Europeans are prone to overlook Tunisia's well-documented human-rights shortcomings, despite the protestations of such outfits as Human Rights Watch and Amnesty International.

Yet a group of Tunisians drawn from various strands of opposition are taking a rare chance to make a fuss ahead of the UN's “world summit on the information society” being held in Tunis next week. On October 18th, eight prominent ones, including Ahmed Najib Chebbi of the Progressive Democratic Party, Hamma Hammami of the Communist Workers' Party and Ayachi Hammami, of the Tunisian Human Rights League, went on hunger strike. According to Lotfi Hajji, another of the hunger strikers, who heads the officially unrecognised Tunisian Journalists' Union, the October 18th Movement, as the hunger strikers call themselves, expresses a range of opinion, from the secular far left to Islamists. Its backers share a desire for freedom of the press and of association, and want Tunisia's 600-odd political prisoners to be freed.

The government says they are mischievously trying to manipulate public opinion just when the world's eyes are focusing on Tunisia. But Mr Hajji says the hunger strike is the only means open to protest, “because the authorities have closed all other avenues of dialogue and negotiation with the opposition and with civil society”. In recent months, he adds, the authorities have clamped down especially hard on NGOs.

The mainstream press is unwavering in its support for President Zine al-Abedine Ben Ali, who celebrated 18 years in office on November 7th. It ignores opposition figures and offers no critical analysis of political, social or economic issues. The party machine of the ruling Constitutional Democratic Rally (RCD) is all-powerful, and buttressed by the intelligence services. Press censorship, human-rights abuses and repression of the opposition prevail. The regime is not as nasty as many in the region: it eschews assassinations and systematic torture. But it often confiscates dissidents' passports, brings trumped-up charges against them, and inflicts petty bureaucratic torment on friends and families. Part of the opposition's frustration, aside from being ignored by the world, is that things never seem to get quite bad enough to arouse the ire of most Tunisians.

Something may have changed. Tunisia wants closer ties to Europe, and that should oblige it to introduce political reforms. In theory, holding the UN summit in Tunis carries obligations too. But while Mr Ben Ali's social and economic reforms have moved steadily ahead, political change has been bafflingly slow, despite Tunisia's large middle class, its well-educated and homogeneous population, and increasingly liberal economy. “Tunisia is the country in the region that is most able to democratise,” says the diplomat. Yet in the president's manifesto before his re-election a year ago, “continuing political reform” came at the bottom of the agenda, well below his promises

to make Tunisia's towns “more pleasant” and to improve relations with Tunisian expatriates.

Still, some people think Mr Ben Ali does in fact want to ease political strictures—albeit slowly. In the past year, small improvements have been visible. The International Committee of the Red Cross is now permitted to inspect prisons. A second chamber of parliament has been created. Within the ruling RCD itself, there have been more elections. And a stipulation that all newspaper articles be censored has been scrapped.

The hunger strike suggests that such changes are too small for the opposition, which many of the hundreds of foreign journalists gathered in Tunis for the information summit are sure to try and meet. So, to the chagrin of the government, their coverage may well focus more on the country's dearth of human rights than on “ways to bridge the digital divide” and other such riveting matters likely to engross local reporters.

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Ethiopia

A darling of the West turns nasty

Nov 10th 2005 | ADDIS ABABA
From The Economist print edition

As a favourite recipient of aid lashes out, the West faces a familiar dilemma

Reuters

The human cost of Mr Zenawi

CARNAGE returned last week to the streets of Addis Ababa, Ethiopia's capital. For the second time since a disputed general election in May, government forces opened fire on protesters, killing at least 46 and injuring hundreds more. In June, 36 were shot dead. This time round, a few of the protesters were violent, but the government response was fearsome. Many bodies laid out in the mortuary of the Menelik II hospital had been ripped apart by bullets. Doctors said that, after the first couple of days of skirmishes, almost all the gunshot wounds were in the stomach, chest and head.

Ethiopia's prime minister, Meles Zenawi, regretted the shootings, but said that the police were mostly acting in self-defence. He promised an independent inquiry but had thousands of protesters put in prison, where many had been for several weeks in the summer. Leaders of the Coalition for Unity and Democracy (CUD), the opposition party behind the protests, as well as some journalists, are to be tried for treason.

This week, the CUD called a general strike to protest once more against the May elections, won by Mr Zenawi, which the European Union has described as “flawed”, and against the shootings. Addis Ababa grew eerily empty, but it was hard to say whether out of defiance or fear. The CUD certainly has pulling power, at least in urban areas, attracting as many as 1m supporters to its rallies. It swept the capital's parliamentary seats in May, despite all the government's efforts to stop it.

Ethiopians prize the ability to speak sweetly but with ambiguity. Mr Zenawi is a master at it. Alternately slick and brutish, diplomats cannot decide whether he is dragging Ethiopia forward or back. Is he the bon vivant who provided sterling service as a member of the Commission for Africa created by Britain's prime minister, Tony Blair? Or is he essentially a rebel leader, who will happily toy with democracy in order to stay in power? With a Marxist education and years of guerrilla warfare behind him, Mr Zenawi instinctively wants to control. He bullied taxi drivers and shopkeepers back to work this week, threatening to ruin the strikers.

Most worryingly, he responded to a measured statement by American and EU diplomats on the shootings by complaining about western meddling. Western countries do have some leverage over Mr Zenawi through the large amounts of aid they are giving to his country ($1.3 billion was due this year); Britain and several other donors have already suspended some of that money.

That sort of punishment may play well with taxpayers at home, but it is not a very effective stick

for beating Ethiopia with, not least because it will undermine the very development the rest of the aid money is meant to underwrite. Moreover, Mr Zenawi's supporters argue that his authoritarian methods, however ruthlessly on display in the capital, have helped to complete roads, clinics and agricultural extension projects in the famished countryside, where most Ethiopians live. Blood-spattered as he now is, Mr Zenawi has earned plaudits for growing more food and overseeing one of Africa's more effective strategies for reducing poverty.

Nor is there a clear alternative to him. The opposition is fractious. A slide into totalitarianism might unite them, but probably only temporarily. The CUD has at least four factions, the smaller United Ethiopian Democratic Forces (UEDF) even more. CUD supporters tend to be Amharas from the superior-feeling north, bitterly resentful of the Tigrayans' lock on power; a quarter of Ethiopians are Amhara, while a bare 8%, including Mr Zenawi, are Tigrayan.

The opposition can also be inflammatory over relations with Eritrea, which won independence from Ethiopia in 1993. Some call for the return of what they call “Ethiopia's Red Sea territories”, meaning Eritrea, by any means. Mr Zenawi is, again, more ambiguous, talking peace while beefing up Ethiopia's army.

Many, perhaps most, Ethiopians and many foreign observers argue that, despite the government's recent bloody brutality, Mr Zenawi is still the best man to keep Ethiopia on a path to development. Perhaps. But the price Ethiopians are paying for that development is going up fast.

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Liberia

Another coup: a peaceful election

Nov 10th 2005 | MONROVIA
From The Economist print edition

Whoever becomes president faces horrendous problems

Get article background

FOR the second time in a month, Liberians have gone to the polls to decide who their 23rd president will be. In October's first round, voters eliminated all but two of the 22 contestants; this week they made their final choice. As *The Economist* went to press, Ellen Johnson-Sirleaf had established an early lead over George Weah, but counting all the votes may take over a week. But, equally important, the whole process, so far, has been entirely peaceful: testimony to the voters' evident desire finally to put decades of political violence behind them.

The two candidates in the run-off could not have been more different. Mr Weah, who got most votes in the first round, is a former footballer, and the most famous person in Liberia. He was born in a poor suburb of the capital, Monrovia, but became a star at European clubs such as Chelsea and AC Milan.

“He will give us education,” say his supporters, who campaigned for him on the slogan: “He know book, he know no book, I'll vote for him.” Their complaint is that it is the educated who have led Liberia into its current mess; their hope is that Mr Weah, with no formal education but untainted by violence or corruption, will lead them out of it.

By contrast, his challenger, Mrs Johnson-Sirleaf, is a seasoned politician, a former finance minister who has worked for the World Bank and the United Nations. She had the vote of those who want Liberia's international credibility restored; her backers say she would bring much-needed aid and investment.

Whoever wins will have to reverse almost three decades of decline, mismanagement and civil war, which has left Liberians poorer than almost anyone else on the planet. Public utilities ceased to function in the 1990s; most people have no running water, electricity, sanitation, decent education or health care. The government is running on a budget of just $80m.

Corruption is on the lips of everyone. Any new government will need to tackle graft and cronyism. Fortunately, it will find itself bound by the Governance and Economic Management Assistance Programme (Gemap), which was endorsed by the outgoing transitional government. The aim is to make public finance more open; international experts are to monitor the government's fiscal performance for the next three years.

Gemap's signing could have touched off debates about national sovereignty, a sensitive issue in Liberia. But in such dire circumstances, neither ordinary Liberians nor international donors object to outside management. Max van den Berg, head of the European Union's election observers, who is also a vice-president of the European Parliament's development committee, says Gemap is absolutely necessary to attract the investment that Liberia needs. But, he says, “you will need people who are committed to carry it out.”

Such people may be more likely to be found in Mrs Johnson-Sirleaf's camp than in Mr Weah's. The former footballer has let a lot of dodgy figures, including cronies of a dreadful former president, Charles Taylor, now in exile in Nigeria, into his court. This has made Liberians doubt whether a government under his command would stay sufficiently clean.

A good influence in the region, at last?

What happens in Liberia affects its neighbours. Since civil war started in 1989, it has exported mayhem and refugees, with devastating results in Sierra Leone, Guinea's Forest province and Côte d'Ivoire, which is now cut in half by civil strife. Liberia has also been a haven for all manner of hustlers, gangsters and terrorists.

Alan Doss, the UN's special envoy to Liberia, is worried. “The Côte d'Ivoire conflict spilling over means we will have to deal, yet again, with the problems of refugees and the recruitment of fighters for that conflict,” he says. Added to that, Guinea is imploding and Sierra Leone is becoming unstable again as well. Perhaps, if it gets a new president to set new standards of accountability, Liberia may start exporting something good.

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Azerbaijan

How not to fix an election

Nov 10th 2005 | BAKU
From The Economist print edition

EPA

Another rigged vote in the former Soviet Union, but no revolution this time—yet

Get article background

WHY was the polling station, at school 278 on the edge of Baku, locked and surrounded by police? The Azeri officer guarding the entrance couldn't say. Where were the ballot boxes, and why had independent observers been thrown out? In the mêlée inside, nobody knew.

Past midnight at school 104, another polling station in the same constituency, piles of ballots marked for Ali Kerimli, a leader of the Azadlig (Freedom) opposition block, lay dumped on the floor. A fight broke out. “It isn't possible,” the head of the constituency election commission said of the discarded ballots. He agreed to drive your correspondent back to the school to prove it—but it was locked.

For the parliamentary election of November 6th in Azerbaijan, a petrostate of 8m people in the Caucasus, the authorities came up with a new election-cooking recipe. First, Ilham Aliev, who inherited the presidency from his father, Heidar, in a rigged poll in 2003, called for an honest vote. The opposition got television airtime (though news coverage was slanted). More than 2,000 candidates registered for the 125 constituencies (but a quarter later withdrew, sometimes because of intimidation, as rallies were broken up and activists arrested). On October 25th, Mr Aliev decreed that voters' fingers should be marked with ink, to prevent multiple voting. The American embassy was said to have spent more than $300,000 to ship in indelible ink, only for the Azerbaijanis to choose the invisible kind.

Although Azadlig claimed to have counted some 21,000 violations, the voting itself was smooth, if disorganised. “Chaos at work,” said one western monitor, as voters struggled to find their names on the official lists. But, said an indigenous observer, “the interesting part will start after dinner.” He was right. “When the fraud is so open,” says Mr Kerimli, “it doesn't matter whose fingers are inked.”

The subsequent choreography was familiar from other elections in the former Soviet Union. Mr Aliev's New Azerbaijan Party (YAP) declared victory with 63 seats, slightly fewer than last time; Azadlig officially won just six; “independents” took most of the rest. A heavyweight team of observers from the Organisation for Security and Co-operation in Europe (OSCE) declared that the poll failed international standards: 43% of the counts it observed had been “bad” or “very bad”.

The European Union and America both chimed in—despite the oil and gas that will soon flow through a new pipeline from the Caspian to the Mediterranean (see map), which had seemed to soften previous western criticism of the Alievs. Sniffing an opportunity to endear itself to its former vassal, Russia criticised the OSCE. On November 9th came the first of what the opposition hopes will be many street protests. Surrounded by riot police, the leaders demanded fresh elections, and asked George Bush to stand up for democracy. As the crowd, thinking of Kiev last winter (and waving orange flags), chanted “Bring tents to the square!”, another demo was called for November 12th.

Will a rigged post-Soviet election, plus corruption, produce another revolution? Probably not in Azerbaijan, for two main reasons. The first is the state of the opposition. It deserved more seats than it got, but it is nothing like as popular as its counterparts in Georgia, in 2003, or Ukraine last year. Whereas Mikhail Saakashvili and Viktor Yushchenko, now those countries' respective presidents, raised their profiles by serving in the administrations that they later ousted, Azadlig's leaders are tainted by association with the brief pre-Heidar government, blamed by many for setbacks that led to a loss of some 20% of Azerbaijan's territory to the Armenians. “We don't want to go back to the 1990s,” says one YAP voter in Baku. This weakness will affect international calculations about how much pressure to put on Mr Aliev.

The second reason is the president's successful projection of a self-image as a good mini-tsar encumbered with bad advisers. His appeal is reinforced by fear—of losing jobs, as well as of harassment and violence. Asked, on polling day, what he thinks of the president, a man scrambling to get his name added to the electoral rolls at a Baku courthouse answers, “it's better not to say—I am afraid.”

Mr Aliev's role in the election debacle is unknown. Perhaps he never meant what he said about

honest elections. “He always talks like this,” says Mr Kerimli, “but he is the head of falsifications.” Or he may have been thwarted by a combination of chaos and retrograde forces within his administration, who are less interested in courting the West than in stopping parliamentary snooping into state-owned enterprises and corrupt monopolies. Something is clearly up inside the government. When an exiled opposition leader aborted a bid to return to Baku last month, assorted ministers and officials were fired, and several were arrested for plotting a coup—although personal rivalry is a likelier explanation for the episode than principle.

By November 9th, advocates of “good Ilham” could point to the fact that votes had been annulled or were being recounted in several constituencies (including Mr Kerimli's). Some regional bosses and officials were sacked. Yet Mr Aliev also praised the election; his concessions may be aimed merely at regaining credibility lost by cack-handed cheating.

Assuming that he is not toppled, the country's future will depend on how enlightened Mr Aliev now becomes. Drive out from oil-rich Baku to the nearby town of Nardaran, past old onshore oil derricks that still pump rustily away, and you find another country. “This oil is no use to us,” says one local, who like most others is unemployed. In 2002, there were violent confrontations over failing water and power supplies in Nardaran, which is home to a Shia shrine and has Koranic verses painted on the walls. The chador-clad women entering the polling station, beneath a big poster of Heidar and Ilham, all seemed to be voting for a local religious candidate, Hajiaha Nuri. “Natural resources are a gift from God,” says Mr Nuri (who lost), “and everyone should get their share.”

Geography and a Muslim population do not make an Islamist upsurge inevitable in Azerbaijan, any more than its rigged election is sure to lead to revolution. Azeris, some say, are too practical for extremism. Perhaps. But if the oil money that is soon to flood in is not used wisely, something will have to give one day.

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Russian holidays

Those pesky Poles

Nov 10th 2005 | MOSCOW
From The Economist print edition

What has Russia got to celebrate?

THIS being Russia, there had to be a hidden agenda. Why was November 4th chosen as a holiday instead of November 7th (the anniversary of the 1917 Bolshevik revolution), which Boris Yeltsin renamed and which Vladimir Putin, his successor as president, has scrapped?

The favoured theory draws parallels with today's politics. “People's Unity Day”, the new holiday, is supposedly (if not actually) the day in 1612 when a home-grown militia, now commemorated by a statue in Red Square, liberated Moscow from the occupying Poles. This liberation heralded the end of the “time of troubles”, the anarchic period just before the establishment of the Romanov dynasty, which ruled until 1917.

For the troubles, runs the theory, read Mr Yeltsin; for the Romanovs, Mr Putin, who sees himself as the guarantor of stability after the strife and mishaps of the 1990s. Might the new holiday also be a dig at today's Poles, with whom Russia's relations are increasingly uncivil? Or does it pander to a rising xenophobia, evident in recent attacks and murders of immigrants and foreign students?

Whether or not nationalism was the motive, Moscow's young racists were quick to exploit the holiday. Several hundred marched through the city, some performing Nazi salutes and chanting “*Sieg, heil!*” The usual paraphernalia of Russian demonstrations went with them: malfunctioning metal detectors, hordes of riot police in rickety buses. When the youths dispersed, a smaller rally was held by tsarists, with black uniforms and Orthodox icons. An outnumbered Communist *babushka* vainly tried to sell newspapers with the headline “Russians: Stalin is your saviour!”

To the Communists, the abandonment of November 7th is a sacrilege. Around 10,000 true believers and assorted fellow-travellers chose to march through Moscow anyway, extolling Lenin and excoriating Mr Putin. Confusingly, a military parade was also staged in Red Square, to commemorate one in November 1941 whose participants marched straight to the front.

The simplest explanation for the new holiday is that Russians expect a day off in November to spend chatting around the kitchen table and drinking even more heavily than usual. So the government had to find something to celebrate. But nobody believed that.

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Poland's new government

Spit and polish

Nov 10th 2005 | WARSAW
From The Economist print edition

A prime minister who is worryingly dependent on populist parties

Get article background

EPA

Marcinkiewicz's ring of confidence

SOMETIMES there are strong governments, sometimes there are sensible ones—but never both, and often neither. That has been Poland's fate since the collapse of communism in 1989, and it looks like continuing after a political deal this week that produced a muddled-sounding minority government, dependent on two dodgy and eccentric populist parties. It is tedious for Poles who are exasperated by their bickering and ineffective politicians; and tiresome for those who would like the biggest of the countries that joined the European Union in May 2004 to be governed properly.

The new prime minister is Kazimierz Marcinkiewicz of Law and Justice, a moralistic centre-right party that won both the recent parliamentary and presidential elections. Having spurned its free-market ally, Civic Platform, Law and Justice presented a programme to parliament on November 10th tweaked to win support from Self Defence, a populist party that speaks for losers in the economic upheaval of the past 15 years, and the League of Polish Families, a right-wing group linked to an ultra-Catholic radio station, with a youth wing that flirts with anti-Semitism.

Mr Marcinkiewicz was set to win a vote of confidence as *The Economist* went to press, promising an end to weeks of wobbles that have sent the Polish currency, the zloty, tumbling. The zloty's troubles reflect aftershocks from the surprise election results. Few had expected Law and Justice to win or govern on its own: its role looked more likely to be one of providing moral ballast for a government led by its arrogant but brainier partner, Civic Platform.

Law and Justice has some strong points, such as a commitment to efficiency and fairness. The new justice minister says he wants Polish courts to work 18-hour days until they clear a massive backlog of unheard cases. Radek Sikorski, the Oxford-educated defence minister, plans internet auctions for defence procurement contracts. There will be a new, high-powered anti-corruption body to investigate what many Poles see as the festering mess left by botched privatisations and a crony-run state bureaucracy.

Another, much-trumpeted aim is to clean up Poland's intelligence services, which are mostly bloated, corrupt and of questionable loyalty. That reflects the intense personal interest of Law and Justice's two leading lights, the twin brothers Lech and Jaroslaw Kaczynski. The first is now president. The second, who is the more dominant, is nominally party leader, but widely seen as the real power in the land.

The Kaczynskis' virtues include integrity, determination and patriotism. But they are not known for vision, leadership, or a well-informed approach to world affairs. Much the same can be said of the new prime minister. For outsiders used to dealing with the savvy, English-speaking figures of the previous left-wing regime, such as the outgoing president Aleksander Kwasniewski, the new lot, largely monoglot and provincial in outlook, may prove a shock.

That is one minus. Another is the deal with the populists. Buying off the League of Polish Families with higher child benefits may be defensible; it is harder to justify backing Andrzej Lepper, the demagogic leader of Self Defence, as deputy speaker of parliament, while opposing a former communist-era political prisoner for a similar position in the upper house, the Senate. “The moral revolution proved very relative,” sniffs Hanna Gronkiewicz-Waltz, a former central-bank chief who is now a leading light in Civic Platform.

It is not clear what else might be needed to satisfy Mr Lepper, who is wavering in his support. An avowed foe of “economic liberalism”, he wants higher social payments (doable, if ill-advised), and a renegotiation of Poland's membership of the EU (impossible). The new finance minister, Teresa Lubinska, exemplified the government's uncertain touch last week by blithely dismissing foreign hypermarkets as unwelcome investors, and boasting of her work in local government to frustrate their expansion. This week she sought to repair the damage, saying that “all foreign investment is welcome in Poland”—but adding that the government favoured those that “contribute to sustainable economic growth”. The government has also pledged not to reform Poland's job-killing and bureaucratic labour code.

A friendly economic environment may help the government up its learning curve. Thanks to the previous government's tax reforms and the delayed effects of joining the EU, growth is picking up. It should reach 4% by the end of the year. Tax receipts are rising too, shrinking the budget deficit. That creates some room for manoeuvre. Mis-steps aside, the government could have an easy ride until its populist backers demand real payoffs in next year's budget. And then? Perhaps Law and Justice will belatedly team up with Civic Platform. That would please a lot of people, at home and abroad.

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German music

Hailing Heino

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From The Economist print edition

Farewell to a peculiarly German form of song

EPA

When Liberace meets Lagerfeld

MENTION that you are going to a concert by Heino, Germany's best-known folk singer, and your sophisticated friends will surely grimace. One musical analyst, Rainer Moritz, calls Heino an “emetic for many generations”. Why this visceral reaction to a singer who mixes the flashy outfits of Liberace with the sunglasses of Karl Lagerfeld—and who is on a farewell tour, after 50 years on stage?

The answer lies in a genre of German hit songs known as *Schlager,* which are the antithesis of what hip 68ers and their spiritual successors groove to, with folksy melodies, schmaltz-dripping voices and simple lyrics. Theodor Adorno, a philosopher and musicologist, once dismissed *Schlager* songs as musical opium for the working class. But what makes them truly German are their themes. Soon after the war, for instance, they were about sunnier pastures that people could not afford to travel to, particularly Italy. By the 1970s, the topics were drugs, the environment and peace.

Heino's songs have also often been an outlet for feelings that German history has made it hard to express: love of the country, its culture and landscape. His repertoire, listened to on both sides of the Berlin Wall, included modern versions of traditional folk songs, or *Volkslieder*, even ones that were popular with the Nazis. In Hoyerswerda, which is near the Polish border, they earned him standing ovations from a crowd whose average age was well above Heino's 66. “These songs will still be sung”, he pledged, “when Heavy Metal, Punk and Hip Hop have long been forgotten.”

Yet his valedictory tour may prove the last breath of the *Schlager*. “The Hitparade”, a popular television show that once featured them, is long gone. They have disappeared from the Eurovision song contest—indeed several recent German entries have been parodies of *Schlager* songs. Germans now prefer genuine *Volksmusik,* for instance on “Musikantenstadl”, a television show, or ordinary German-language rock bands.

Most Germans are happy about such musical normalisation, though some will miss making fun of Heino. Heino impersonators such as “The Real Heino”, once the opening act of Die Toten Hosen, a punk band, will die out. Foreigners, too, should shed a tear over losing one of Germany's more unusual cultural phenomena. Jello Biafra, former lead singer of a punk band, Dead Kennedys, has a collection of Heino records, to show how low you can get musically. And listening to their simple lyrics was always a great way to learn German.

Charlemagne

Minority reports

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From The Economist print edition

Where Europe fails in its treatment of minorities compared with America

AFTER Hurricane Katrina, Europeans rushed to congratulate themselves on avoiding the misery they saw on the faces of survivors. Such isolation and deprivation, they said, could never happen here. After two weeks of rioting in France, Americans are mockingly retorting that isolation and failure occur everywhere—and not only, some might add, in France. Britain saw immigrant riots in 2001. The Netherlands has radical Islamists who commit political murders.

Whether Europe or America really has the better record on accommodating ethnic minorities is an issue that may be debated ad infinitum. But the riots in France point to one particular area in which Europe has been unusually bad: integrating immigrant families from the second and third generations.

In America, the education levels, English-language skills and intermarriage rates of immigrant groups rise over time. So do income, home-ownership and political representation. This is the natural course of assimilation. But it does not seem to work in Europe. Some European countries (including France) do not collect ethnic-based statistics, so hard evidence is tricky to come by. But most indicators of second- and third-generation assimilation in Europe are disquieting. There are few North African or Turkish representatives in French or German politics. Most young men arrested after the French riots have been sons or grandsons of immigrants from the 1950s or 1960s. The murderer of Theo van Gogh, a Dutch film-maker, was described by the chairman of a parliamentary commission as “an average second-generation immigrant”. Europe, it seems, has done less than America to assimilate the children and grandchildren of newcomers. Why?

The answer depends on another question: what makes immigrants adapt? Some people stress the role of the host country, and argue that European policy has been worse than America's. Certainly, European policy has been all over the place. In France, anybody can be a citizen, and there are no recognised group identities. The ban on the Muslim headscarf in state schools exemplified this assimilationist tradition. Germany, until 2000, was the opposite: nobody could become a citizen if they were not of German extraction, even if they met the usual conditions (such as being born in the country of parents also born there). Britain and (until recently) the Netherlands were different again: they have sponsored a tolerant multiculturalism, in which minority groups are encouraged to celebrate their distinctiveness, so long as they accept that others can do the same.

After the events of the past two weeks, some Europeans are arguing that the British approach is the better one. Yet Islamic extremism exists in both integrationist France and multicultural Britain. Neither France nor Britain has avoided segregation in immigrant areas, although Germany has. America is moving away from multiculturalism, which dominated in the 1980s, to greater assimilation (some states ban Spanish as a language of instruction, for example). The correct conclusion is not that one model is best, but that policy may not be what makes the difference.

Perhaps it is culture that counts. Maybe Muslims are unusually retentive of their original culture. Certainly, they are the targets of increasingly radical propaganda, demanding that they separate themselves from the decadent society around them. And many Muslims discourage their sons and (especially) daughters from marrying outside their faith or ethnic group. Since intermarriage influences how quickly second- and third-generation immigrants assimilate, this cultural preference may make it harder for Europe to integrate, say, North Africans than it is for America to integrate Hispanics.

But do not make too much of the difference. Hispanic intermarriage rates in America, though rising, are lower than mixed marriages in many multicultural parts of Britain. Americans worry about the different culture of Latinos just as much as Europeans do about North Africans. So even if immigrants in Europe raise cultural barriers to assimilation, this is hardly unique. What matters are the forces that work to overcome those barriers. Two stand out: work and home-ownership.

The work advantage

Work is the archetypal social activity. It provides friends and contacts beyond your family or ethnic group. If you start your own company, it pulls you further into the society around you. And here is a striking difference between Europe and America. Unemployment in France is almost 10%. Among immigrants or the children of immigrants, it is at least twice and sometimes four times as high. In contrast, unemployment among legal immigrants in America is negligible, and business ownership is off the scale compared with Europe.

The second big motor of integration is home-ownership, especially important in the second and third generations. This gives people a stake in society, something they can lose. Thanks to cheap mortgages and an advanced banking system, half of Latinos in America own their own homes. Britain, after its council-house sales and property booms, also encourages house ownership. In contrast, most of the blocks in the French *banlieues* are publicly owned.

Between them, a job and a house help to create not only more integration but also greater social mobility. Latinos supported America's turn towards assimilation because they feared the trap of Spanish-language ghettos. But the *banlieues* are full of people who have grown up without jobs, or any hope of getting a better income or a better place to live. For them, integration is a deceit, not a promise.

A job and a house will not solve everything. The father of one of the July 7th London bombers

owned two shops, two houses and a Mercedes. But if you want to know why second- and third-generation immigrants integrate more in some countries than others, jobs and houses are a good place to start.

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The prime minister and his party

After the defeat

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Reuters

Tony Blair defied his backbenchers—and lost far more than a vote on terrorism

IMMEDIATELY after the government's defeat over its controversial terror bill, there was a rush to write Tony Blair's obituary. It was not just that Mr Blair had been beaten in the House of Commons for the first time since he became prime minister in 1997. That in itself would have been remarkable given the government's working majority of 66 (or 71 if the non-voting Sinn Fein MPs are excluded). What marked November 9th as such an important moment in British politics was the scale of the rebellion—49 Labour MPs turned out against the government to defeat it by 31 votes—and Mr Blair's decision to stake his authority on what proved a hopeless cause.

The legislation that Mr Blair wanted to pass had been in trouble ever since it was first mooted several months ago. After the July 7th terrorist bombings in London, the prime minister announced that he would be bringing forward new laws to help the police in their fight against terrorism (see article). He would, he said, be seeking a consensus with other parties. This approach was widely welcomed, but it didn't last long.

The police wanted a dramatic increase in the number of days a terrorist suspect can be held without charge, from 14 to 90. They argued that the devastating consequences of modern terrorist attacks force them to intervene earlier in such investigations than they would when, say, busting a drugs ring; and that the intelligence-based evidence they rely on in such cases often takes a long time to sift. But the police failed to show why the right detention period was 90 days rather than 40, or even 120. That failure made MPs of all parties uneasy.

Yet Mr Blair quickly decided to make it an issue of principle to back the police to the hilt. Anyone who disagreed, he said, was putting the security of the country at risk. Opinion polls, suggesting that an overwhelming majority of voters were behind him, offered encouragement.

Mr Blair was undone not just by his eagerly confrontational approach to those determined to preserve fundamental civil liberties, but also by poor party management and by his refusal to acknowledge the unfamiliar difficulty of governing with a majority that is little more than a third of its former size. While Charles Clarke, the home secretary, attempted to negotiate an agreement both with his opposition counterparts and with dissenting Labour MPs, Mr Blair repeatedly cut the ground from under him by insisting there could be no compromise on the 90 days because it was “the right thing”.

At one point, it seemed that the prime minister might just get away with his intransigence. At a packed meeting of Labour MPs on the evening of November 7th, he made a passionate defence of his stance on the proposed power and his conviction that a lack of discipline and a retreat from the centre ground would wreck Labour as a party of government. Loud cheers from MPs persuaded Mr Blair, who had already promised a “sunset” clause guaranteeing that the law would be reviewed next year, that he could win without making any further concessions.

It was a miscalculation, and one that reflects badly on the government's whips. They should not have allowed Mr Blair's warm reception to sway them from their original calculation that a vote on the 90 days was unwinnable.

On the day of the vote, even Mr Blair seemed to sense that the tide was running against him, remarking that “sometimes it is better to lose and do the right thing than win and do the wrong thing”. In a television interview shortly after the defeat and the passing of an amendment extending the permitted detention of terrorist suspects to 28 days, he was equally defiant, saying that “the country will think that Parliament has behaved in a deeply irresponsible way”. It was an odd start to the difficult business of rebuilding relations with his party.

Where does this now leave the prime minister and the reforms he set out in his party's manifesto before the election that took place only six months ago? The simple answer is that he is in a lot of trouble. The issue on which he has been defeated was in some ways a one-off, but that should be of no comfort.

The Labour Party has never defined itself by its attachment to civil liberties. What brought many Labour MPs into politics was a concern for public services and welfare as the state's instruments for creating a more equal society. Yet it is in precisely these areas that Mr Blair is attempting to drive through a new phase of contentious reform. Many Labour MPs are fearful of Mr Blair's plans to make schools independent from local education authorities, to accelerate private provision in the health service and to bear down on the abuse of incapacity benefits.

The government has a decent majority. But the prime minister's ability even to carry through manifesto commitments is now in doubt

With at least 30 habitual rebels prepared to defy the government whenever the opportunity arises and numerous others who are willing to join them under the right circumstances, it is difficult to see how Mr Blair will pass much of the legislation he regards as crucial to honouring his promises and securing his legacy. Either he will have to change his style of leadership fundamentally, becoming more consensual and willing to dilute the reforms that are most objectionable to his MPs, or he will have to rely on Tory support. He may find the first impossible; his party may find the second unacceptable.

It is an extraordinary situation. Labour leads the Tories in the polls by a healthy margin—eight percentage points according to the latest Populus survey—and the government has a decent majority. But the prime minister's ability even to carry through manifesto commitments is now in doubt.

Mr Blair's many enemies hope that he will find such impotence too frustrating to bear. But it is too soon to write him off, just as it is wrong to underestimate his proven ability to turn events to his advantage or his desire to serve ten years as prime minister. Still, Mr Blair will need all his remarkable resilience if he is to recover from the blow he has received this week.

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Labour and the law

Repeat offending

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The government's new terror legislation fits into a disturbing pattern

THE four bombs that exploded in London on July 7th not only tore off arms and legs; they also blew away civil libertarian notions and brutally exposed the inadequacies of the criminal justice system. Or so the British government insists. Unwrapping a bulky package of anti-terror laws on August 5th, Tony Blair declared that “the rules of the game have changed.” This week, as those laws were debated in Parliament, Mr Blair and Charles Clarke, the home secretary, sounded almost revolutionary. The legal system must, they say, be re-balanced so that it takes more account of the safety of ordinary Britons and less of the rights of terrorist suspects.

Opponents of the government's plans agree that they are revolutionary, but they have in mind the sort of revolution that involves tumbrels and guillotines. A proposal to allow the police to hold suspects without charge for up to 90 days, which was defeated this week, was compared by Michael Howard, the leader of the Conservative Party, to the ways of apartheid-era South Africa. The plans as a whole, critics insist, are an unprecedented affront to free-born Englishmen.

Both sides are guilty of overstatement. The government's proposals may be draconian, but they are hardly innovative. The legislative war on terror epitomises Labour's approach to law-making as it has evolved over the past eight years. It shows that since the attacks on London on July 7th the rules of the game have not changed at all. They have just become clearer.

Today's crop of anti-terrorism measures was drafted quickly, with some powers made available for consultation for just two weeks during the summer. Such haste is typical. “This government has shown even greater legislative incontinence than previous ones,” says Anthony Lester, a Liberal Democrat peer and human-rights lawyer. Since the mid-1990s, there has been only one year in which fewer than two major criminal-justice bills were enacted. During the 1980s, the rate was one a year.

Hasty laws beget other hasty laws, in part because legislation drafted at speed often needs patching up later. Following the terrorist attacks of September 11th 2001 in America, Parliament hurriedly granted powers to intern foreign terror suspects without trial. Three years later, when Britain's highest court found those powers to be unlawful, the government urgently created a new legal device, the “control order”. This can be used to prevent suspected terrorists from using the internet or the telephone or even, potentially, from leaving their homes. Accused of undermining the legal process, the government also promised to review laws against terrorism. Hence today's legislation.

Another feature of Labour's approach to law and order is that it escapes having to add new offences to the statute book. The Terrorism Bill creates some criminal offences, including the distribution of terrorist propaganda. But fully half of the bill is taken up not with new laws but with new powers. In addition to the power, granted after this week's defeat, to hold terrorist suspects

without charge for up to 28 days, the government wants the right to proscribe extremist groups. It also promises to step up the use of existing powers to keep out or deport radical Muslim clerics and other firebrands.

For the government, the problem with criminalising things is twofold. It must explain exactly what it wants to outlaw, which is tricky, and it must put people on trial, which is a slow and unreliable means of stopping them from misbehaving. “The government has become frustrated with the inefficiencies of the criminal process,” says Sally Ireland of Justice, a pressure group. Measures such as control orders are quicker, easier and more specific, like a strait-jacket that can be tailored to fit individual miscreants.

The government learnt this lesson while fighting a different menace: anti-social behaviour. By the late 1990s, it had realised that existing laws against petty crime were failing to deter some hoodlums—often children—from terrorising neighbourhoods. In 1998 it created Anti-Social Behaviour Orders (ASBOs), which resemble restraining orders, although they can be used to prohibit a much wider range of behaviour, from walking in a given area to wearing a hood. This provided the blueprint for control orders.

Open-ended orders and vague summary powers present a greater threat to liberty than specific laws. That explains a third feature of Labour's law-making: the assurance that powers will be used with discretion. It is now routine for the attorney-general or the director of public prosecutions to promise that a sweeping new power will not be used in a sweeping way. Such pledges were made for ASBOs and control orders. This week, Mr Blair insisted that only a “very small” number of suspects would be held without charge for up to 90 days. Talk of internment was, he insisted, wide of the mark.

Such promises tend to be kept—for a while. Control orders have indeed been used sparingly, although that is hardly surprising: they are just eight months old and will be subject to a vote in Parliament next year. The campaign against anti-social behaviour is a different matter. Powers that were designed to tackle neighbourhood tyrants have been deployed against protesters, beggars, prostitutes and the mentally ill, including one would-be suicide. So much for discretion.

The last feature of Labour's legislative efforts is the oddest of all, because it relies on the co-operation of critics. Senior judges often protest about initiatives that they perceive as threats to legal tradition and the rule of law. Despite their carping, or perhaps because of it, judges are often asked to oversee the government's most draconian initiatives. A retired judge scrutinises the wiretaps that are made under Labour's Regulation of Investigatory Powers Act. Judges listened to appeals from the men who were interned after 2001. They now approve control orders and will do the same for powers of extended detention. A deputy high court judge even reviews the whole anti-terror programme.

Judicial scrutiny has made Labour's policies more palatable. Whether the judges have been a force for restraint is less clear. They approved the continued detention of most of the foreign terror suspects interned after 2001. In only 2% of cases do magistrates refuse police requests to hold ordinary criminals for an extended period without charge. The judges' dilemma is the same one faced by politicians: they are reluctant to second-guess the police and intelligence officers.

When Mr Blair was shadow home secretary, he protested against the Conservative government's law-and-order policies, using some of the same words that critics now hurl against him. In 1994 he declared his support for “our traditional rule of law and the principles that go with it” and insisted that subjects must be deprived of their liberties by the courts, not politicians. In power, Labour has eroded both principles, while displaying restraint in the use of its expanded powers. That may not last, of course. If the Conservatives return to power, listen for protests from the opposition benches that the laws are being used in an entirely different way than was intended.

The Iraq war

Meyer culpa

Nov 10th 2005
From The Economist print edition

A former Washington ambassador takes Tony Blair to task

IT LED the BBC's news bulletins for a day. And two newspapers—the *Guardian* and the *Daily Mail*—gave over most of their front pages to it. But then they had bought the serialisation rights. In truth, the "revelations" in a new book by Sir Christopher Meyer, Britain's ambassador to America during the run up to the Iraq war, betrayed more about his fears of being excluded from dinner with President George Bush than about Tony Blair's timid and distracted diplomacy.

Although Sir Christopher declares he was a supporter of the war, the mistakes made by the Americans and their British partners have made him pessimistic about the outcome. The main thrust of Sir Christopher's critique of Mr Blair is that, dazzled by the glamour of the White House and overwhelmed with moral fervour, he failed to negotiate sensible conditions for Britain's support. All very different, he implies, from the way the more hard-headed and estimable Margaret Thatcher would have handled things.

Had Mr Blair only used the leverage he had established with the Bush administration as "the indispensable ally", Sir Christopher claims, he could have delayed the war by six months. For two reasons, this could have made a big difference.

Harnessing together the military and diplomatic timetables would have created a better chance of building a wider coalition in favour of toppling Saddam Hussein. Secondly, he could have pressed the administration to come up with something better than its half-baked Pentagon plan for running post-war Iraq.

If only. The trouble with these judgments is that they are easy to make in hindsight and depend on assumptions that don't hold up under scrutiny.

It is not clear that delaying the war would have had the benign consequences Sir Christopher claims. With more time, the weapons inspectors would still have found nothing. If so, the coalition would surely have unravelled further rather than been galvanised to vote for action in the Security Council. With more time, the arrangements for running Iraq after the war might have been better. But rivalries between the Pentagon and the State Department were so bad that well-meaning British prodding might have had no effect.

Sir Christopher not only underestimates Mr Blair's achievement in pressing Mr Bush to make a concerted effort to win over the United Nations. He also exaggerates Mr Blair's power to stop the American military juggernaut. Quite apart from the huge logistical difficulties of rotating many thousands of troops in and out of theatre during the hot summer months, Donald Rumsfeld, the defence secretary, and Dick Cheney, the powerful vice-president, were implacably opposed to pausing for more than a few weeks.

There are those who recall Sir Christopher, who left Washington in February 2003, making just this point and sensibly advising on the limits to British influence.

Sir Christopher's memoir may have in one way proved comforting reading in Downing Street. He absolves Mr Blair of two charges made against him by critics of the war. The idea that the prime minister was the president's “poodle” strikes him as absurd given that his own will to deal with the threat of Iraq fully matched Mr Bush's. He also rejects the allegation that Mr Blair committed Britain to war during the Crawford talks in the spring of 2002. Sir Christopher confirms that, although war became increasingly likely in the months afterwards, there was no inevitability about it until later.

Along with the absence of too much confidential detail, this may be one reason why the government did not try to prevent the book's publication. Not so with an account by another British diplomat, Sir Jeremy Greenstock, who was ambassador to the UN up to and during the war and who became Britain's highest official in the Coalition Provisional Authority in Iraq.

Sir Jeremy, a quieter and more thoughtful man than the (fairly) flamboyant Sir Christopher, apparently revealed too much of what happened behind the scenes. One Foreign Office insider says that Jack Straw, the foreign secretary, regards Sir Jeremy's revelations as “unconscionable”. The chances of this more interesting book being published are dwindling—at least in its original form.

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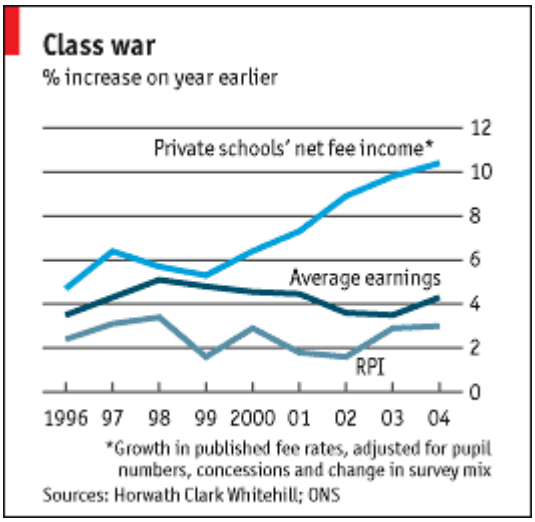
School fees

In a league of their own

Nov 10th 2005
From The Economist print edition

Britain's top private schools have run foul of competition law

Get article background



PUBLIC schools tend to operate on the assumption that once parents have decided to pay for private education they then choose a school on quality, not price. But after a decade of above-inflation fee increases, even the most price-insensitive parents must be feeling a little numb. So they could be excused if they take a bitter pleasure in the competition regulator's announcement on November 9th that 50 of the country's foremost schools have breached competition law, resulting in parents "being charged higher fees than would otherwise have been the case".

The schools—which include Eton, Harrow and Winchester—claim that the relentless fee rises have a perfectly innocent explanation. Unconstrained by the state sector's national pay agreements, they can pay above the odds for teachers in "shortage" subjects such as physics and modern languages, rather than leaving posts unfilled or hiring non-specialists, as state schools do. They have been spending heavily on sports facilities, again unlike state schools, which have been selling off playing fields as fast as they can. And they have been badly affected by rising insurance premiums, pensions and the costs imposed by new child-protection laws.

The Office of Fair Trading (OFT) doesn't mention fee increases in its "statement of objections". Instead, its judgment is based on the way the schools shared information. Schools' bursars have long been in the habit of meeting to discuss costs and pricing, and in 1997 the bursar of Sevenoaks School started collecting information about proposed fee increases, and circulating it between the 50 schools. But when the 1998 Competition Act came into force in March 2000, it ended the decades-long exemption of educational institutions from competition legislation, and the "Sevenoaks survey" wound up on the wrong side of the law.

The schools now have until next March to make further submissions to the OFT, which will then make its final decision. If this goes against them, the schools could be fined up to 10% of annual turnover.

The OFT says it is unlikely to impose such a high penalty. All the same, the schools feel hard done by. In a plaintive letter to the OFT, Jonathan Shephard, general secretary of the Independent Schools Council, says that, as they are charities, there is "no possibility of personal gain or profiteering even if there has been a breach of competition law", and that any fine would eat into their charitable assets or force them to raise charges, "damaging the very people the OFT is

supposed to protect". He complains that they didn't know that competition law now applied to them, that nobody told them so, and that they were never consulted about the new law. "Schools are now being held liable for breaking a law which no-one knew applied to them," he says.

Aggrieved parents could in theory seek damages at the Competitions Appeal Tribunal, but they would have to put a figure on their loss. They could wait and see if the OFT comes up with an estimate in its final ruling and then use that, suggests Tony Prosser, a specialist in competition law at the University of Bristol. But even if the final decision goes against the schools, it may well be based on their sharing of information, rather than estimates of how much this pushed fees up.

When they realised in 2003 that they might be breaking the law, the schools immediately stopped sharing information. Fees at the top boarding schools were then around £6,400 a term; they are now £7,800. So parents who expect lower fee rises to result from the OFT's investigation are likely to be disappointed. Schools seem well able to raise fees substantially, and in step, without co-operating at all.

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Tax credits

Flawed design

Nov 10th 2005
From The Economist print edition

The tax system is the wrong way to provide welfare benefits

ONLY a special political talent can spend billions helping poor families—and then infuriate and harm hundreds of thousands of them. Yet this has been the effect of the government's tax credits. Salvaging the reform is vital for Labour's mission to reduce child poverty and for Gordon Brown's reputation.

The chancellor's new system of tax credits took shape in April 2003, when three main types of support for most families with dependent children merged into the child tax credit (CTC). At the same time, poor parents with jobs got further help through the working tax credit (WTC). The money is on top of child benefit, paid to all families and historically the mainstay of state support for dependent children.

When the new tax credits were introduced, Mr Brown said they were “the modern route to eradicating poverty by making work pay”. The reform was also said to do away with the supposed stigma of getting means-tested benefits. But the main reason why the chancellor was so keen on his new tax credits was that they were easier to sell politically as a means of directing financial help to poorer families.

Although CTC is paid to well-off parents, it favours poorer ones. Families with a joint pre-tax income of up to £50,000 get £545 a year, which is then tapered away until income reaches £58,000. However, families on incomes up to £14,000 also get £1,690 a year for each child. This is then gradually withdrawn until, for example, income reaches £25,000 for a family with two children. The full per-child payments are worth much more than child benefit of £880 a year for the first child and £590 for each subsequent child.

Support for parents getting both tax credits is especially generous. A family on WTC can receive, on top of CTC, as much as £3,215 a year. There is also help of up to £210 a week with child-care costs. According to Citizens Advice, a lone parent with one child, working 20 hours a week on the minimum wage and paying £80 a week for child care, would be entitled to more than £8,000 a year in tax credits, a big boost to earnings of £5,250.

As a result, the two tax credits now eclipse child benefit in overall support for families. The cost of child benefit in 2003-04 was £9.4 billion, compared with over £13 billion on the two tax credits.

The generosity of the reform seemed certain to guarantee its popularity. Yet it has proved anything but popular with hundreds of thousands of unfortunate recipients who have become ensnared in a bureaucratic tangle. The main snag has been overpayment followed by a hefty reclaim. For many poor families on tight budgets, these demands to repay tax-credits-turned-debt cause anguish.

Overpayments have been widespread. In 2003-04, 1.9m tax-credit awards—a third of the total—were too high, resulting in a total overpayment of £1.9 billion. There were 630,000 awards where the overpayment was £1,000 or more, including 40,000 where it exceeded £5,000. The mess generated a clutch of scathing reports, notably from Ann Abraham, the parliamentary ombudsman, and an apology in June from Tony Blair.

The question now is whether the tax-credits policy can be fixed. Some of the initial difficulties such as computer glitches are unlikely to recur. Others have been administrative failings, including an unhelpful helpline and incomprehensible tax-credit award notices. These deficiencies can be sorted out, although they should never have occurred in the first place.

A tougher nut to crack is the revenue's culture, revealed in complaints to the ombudsman as combining bureaucratic incompetence and insensitivity. Still, with firm direction it may be possible to transform even hard-boiled taxmen into soft-centred tax-credit staff.

Yet can administrative reforms, however effective, fix the problem? No, says Mike Brewer of the Institute for Fiscal Studies: “Even if the system were perfectly administered there would be a lot of overpayments.” This is because tax credits, as part of the annually assessed tax system, can pay awards that turn out to have been too high because of subsequent rises in income in the tax year.

The government disregards the first £2,500 increase in income when calculating whether awards have been overpaid. But even with this waiver, tax credits stand in sharp relief to traditional means-tested benefits, which cannot normally be taken away and are based on present need. By contrast, tax credits are re-assessed on the basis of total earnings in the tax year. As a result, families that received too much (and spent it) then fall on hard times as the revenue recovers the overpayment. Yet the complexity of the system makes it tricky for people to work out their entitlement.

In her report, Ms Abraham highlighted that some financial uncertainty had been built into the tax-credits system by virtue of its design. This raised the question whether for the poor, who have to budget and plan their lives carefully, “such inbuilt instability or uncertainty really works”.

One likely fix will be to raise the waiver, reducing the potential for overpayments. However, this will leave an underlying instability. Because certainty is so important for poor families, tax credits are the wrong way to help them.

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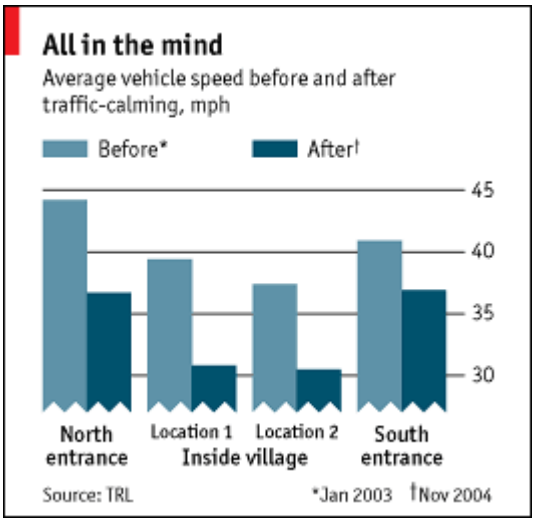
Traffic management

Dangerous driving

Nov 10th 2005
From The Economist print edition

The psychology of road safety

DRIVING is fun; driving fast is even better. That truth has made motorists resist the efforts of traffic engineers—worried about safety—to slow them down, especially in urban areas. Obstacles like speed bumps and chicanes are effective but unpopular, and speed cameras have caused too much of a political fuss. So traffic engineers have started to explore psychology instead.



The idea is to make roads safer by making them look more dangerous, encouraging drivers to slow down. The techniques range from the subtle (clever construction can create the illusion of a steep camber) to the obvious (using trees to reduce visibility), but all are designed to create an impression of uncertainty and risk on a previously open road.

The Transport Research Laboratory, in Berkshire, has been investigating these ideas, and last week published its findings. In computer-simulated tests, drivers reduced their speeds in village centres by up to 13%. Traffic speeds in the village of Latton in Wiltshire have fallen dramatically since a psychological scheme was put in place (see chart), especially among the fastest drivers. Before the new scheme, 50.4% of cars zipped through part of the village at 40mph or more; now only 10.3% do.

Some enterprising planners want to go even further. In London, councillors in Kensington & Chelsea are planning to get rid of traffic islands and road markings altogether on Exhibition Road and, inspired by similar schemes in the Netherlands, to merge the road and the pavement into a single surface. In theory, this will improve safety by forcing pedestrians and drivers to pay attention to their surroundings. “Traffic engineering is one of the last unchallenged bastions of Stalinist thought,” says Daniel Moylan, the councillor in charge of the project. He uses supermarket car parks as an analogy, where drivers and pedestrians ignore traffic signs and work out a system of traffic control by mutual consent.

Not everyone is so enthusiastic. Edmund King, the director of the RAC Foundation, a motoring-research organisation, thinks city driving may be too demanding for the measures to work. “You've already got to pay attention to traffic lights, pedestrians, buses and so on.” Others worry that the power of such measures comes from their novelty and that drivers will adapt and speeds—and accident rates—will creep back up.

Bagehot

This time, Gordon is not the problem

Nov 10th 2005
From The Economist print edition

Gordon Brown has no interest in encouraging the erosion of Tony Blair's authority

IN THE endless saga of Blair and Brown we have become wearily used to the story. According to the Brownites, the plot goes like this: Tony ventures recklessly out on a limb and, only when he hears it begin to crack, will he plead with Gordon to save him from his folly, which Gordon, out of deep loyalty to the government duly does. The Blairites have a different version: while Tony pushes forward boldly, Gordon hangs back, helping only at the last moment as a cynical demonstration of his power and Tony's dependency. Whichever of these you prefer, both are now hopelessly out of date.

Two things have changed. The first is that after this week's defeat for Mr Blair's controversial policy of detaining terror suspects for up to 90 days, it is clear that with a greatly reduced parliamentary majority not even Mr Brown's last-minute interventions can always be expected to save the day. Dramatically rushing back from Tel Aviv to twist rebel arms in London conformed to the old script, but the result didn't.

The second is that whatever the difficulties of their relationship, paradoxically, the more Mr Brown thinks of the day when he becomes prime minister, the more he and Mr Blair will find that their interests are aligned. The prevention-of-terror legislation is a case in point. Mr Brown strongly supported Mr Blair's tough stance and political positioning, if not his highly confrontational tactics. Ever the strategist, he agrees with Mr Blair that, come the next terrorist outrage, the Tories will find that they have put themselves on the wrong side of the argument. Mr Brown has no intention of fighting an election in a few years as a prime minister who equivocated over the country's

security.

A more complex question for Mr Brown is how he should handle Mr Blair's ambitious programme of domestic reform. For all the noise generated by Mr Blair's defeat this week and for all that a surprising number of Labour MPs either rebelled or abstained, the party traditionally cares rather more about education, welfare and the health service than it does about civil liberties.

It is on these issues where Mr Blair's authority is genuinely at risk and it is on issues of this kind—tuition fees and foundation hospitals, for instance—that in the past the backing received from the chancellor was only of the most conditional and ambiguous sort. As Mr Brown draws ever closer to the succession, why should it be any different now?

The answer is that the calculation of where advantage lies has changed for Mr Brown. Before, resentment and frustration were never far from the surface and it was important for him to demonstrate that the prime minister did not have a monopoly of power. But now Mr Brown's overriding concern is, or should be, the state of the party he inherits.

Mr Brown knows all too well that a party that loses the habit of discipline may struggle to regain it. When John Major succeeded Margaret Thatcher, Tory MPs briefly lost their appetite for rebellion, but they quickly recovered it with catastrophic consequences for Mr Major and his successors. The more Mr Blair's authority is depleted before he departs, the less Mr Brown will have when he becomes prime minister, particularly if he has a rump of surly Blairites to contend with.

Now Mr Brown's overriding concern is, or should be, the state of the party he inherits

Because many Labour MPs regard Mr Blair's plans for a further shaking up of public services and welfare as deeply contentious, it is assumed that Mr Brown must also be hostile. That is too simplistic. Although less inclined than Mr Blair to see structural change as the panacea for improving secondary-school performance, he believes that in principle markets can work in education. As far as redrawing the incapacity-benefit rules are concerned, his main worry, with his Treasury hat on, is that extending the fairly successful “pathways to work” pilot will cost a lot more money than it saves, at least in the short term. And while Mr Brown's scepticism about the role of markets in health care hasn't changed, he does not dispute the value of the “contestability” that new providers can offer.

Above all, the chancellor, again thinking strategically, is determined not to be labelled any longer, either by Blairites or Cameron-led Tories, as “roadblock Brown”. In the past, it annoyed him, but now he can see that it is also extremely hazardous. All this suggests that Mr Blair may find Mr Brown to be a more reliable ally in the last phase of his premiership than in the previous eight years.

The odd thing is that Mr Blair, who is normally so quick to spot a political opportunity, has not woken up to this one. After an election campaign in which the two men fought shoulder-to-shoulder, seeming to re-establish a rapport and even something close to mutual admiration, the possibility of finding a more productive way of rubbing along together was there.

It was obvious what was required. Together, Mr Blair and Mr Brown needed to work out a programme for a Parliament during which power would pass from one to the other around the half-way point. In exchange for a timetable and a smooth transition, Mr Brown would commit himself to helping Mr Blair get as much as possible of what he wanted done before the handover.

Old habits

But nothing of the kind happened. Mr Blair's departure date is known only, if at all, to himself. There is no collegial discussion of policy, even when most of the implementation would have to occur on Mr Brown's watch. Mr Brown was never even asked for his views on the education white paper.

Mr Blair has a problem—a very big one. But it is with his fractious, suspicious MPs rather than with Mr Brown. What this week has shown is that both men need each other more than ever. If Mr Blair cannot bring himself to see it, his chances of achieving anything much in the time left to him are slim.

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Correction: John Sentamu

Nov 10th 2005
From The Economist print edition

In an article last week on the new Archbishop of York, John Sentamu, we published the wrong photograph. Our picture showed Archbishop Peter Akinola, the primate of Nigeria, with the Archbishop of Canterbury, Rowan Williams. We apologise for our mistake (which has been corrected online).

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Online books

Pulp friction

Nov 10th 2005 | CAMBRIDGE, MASSACHUSETTS, LONDON AND NEW YORK
From The Economist print edition

Internet companies are racing to get books online, but publishers are understandably wary

“INFORMATION wants to be free,” according to a celebrated aphorism from the early days of the internet. Yet this ethos has been creating new headaches recently. As search-engine firms and others unveil plans to place books online, publishers fear that the services may end up devouring their business, either by bypassing them or because the initiatives threaten to make their copyrights redundant.

This month, Google announced that it is moving forward with its plans to digitise books from several big libraries, despite two lawsuits filed in October by authors and publishers who claim that the firm's actions violate their copyrights. (Google says its actions are legal under a “fair use” exception in the law.) Meanwhile, Yahoo! and Microsoft have unveiled plans to make books accessible online through the Open Content Alliance, and Microsoft has struck a deal with the British Library to digitise 100,000 books in its collection that are no longer under copyright. Not to be outdone, Amazon said it plans to sell online access to books on a “pay-per-view” basis. And Random House, the world's largest publisher of trade books, last week became the first big publishing house to move into online book access.

Creating a virtual Library of Alexandria has long been a dream of techies and book-lovers alike. Project Gutenberg, a digitisation initiative dating back to the 1970s, currently boasts over 17,000 books in around 45 languages. This summer, European nations backed a “digital library” plan to place literary works online. For readers, the idea of being able to access the aggregate knowledge

of humanity on a single device from anywhere in the world seems a benefit of mythic proportions, and the obvious next step in man's quest —from stone slabs to papyrus to movable type to ethereal digital bits—to document the world in words and symbols.

“In the future, the only thing that will get read is something that will be online. If it isn't online, it doesn't exist”, proclaims Jim Gerber, director of content partnerships at Google. Yet for search companies such as Google, Yahoo! and Microsoft's MSN, digitising books is particularly important because it represents the next critical phase of the industry. Most of the web has already been scanned and indexed—there are already between 8 billion and 10 billion items online. Although search technology is constantly tweaked to provide better performance and more relevant results, studies by Microsoft have shown that around half of all search queries fail to provide the information that users want. “We need to get offline content online. Offline is where trusted content is, and where people who need to answer questions go,” explains Danielle Tiedt, manager of search content acquisition at MSN. “Books are only the first step,” she says.

The cost of digitising a book can be as low as 10 cents per page, and as much as $100 per book if it is longer, oversized, or requires more effort (though for recent titles, digital files already exist). Business models to recoup the investment remain embryonic for now, but include paid advertisements at the bottom of a web page, charging a few cents to view a page and possibly subscription pricing.

Unbundling books

But digitising and indexing books does more than shift printed material online: it permits the “unbundling” of content from the printed page and creates new access and sales opportunities. For example, you might not have to buy a celebrity chef's entire book of recipes before a dinner party—but instead just download the one you want. And with electronic distribution, print-on-demand technology and the notion of “the long tail”—the idea that niche items, not just blockbusters, can be lucrative—books may stop going “out of print”.

However, the nub is how the money flows. Nigel Newton, the boss of Bloomsbury (the publishing house that discovered J.K. Rowling, author of the “Harry Potter” books), says that if publishers let technology firms digitise their content this will eventually dilute their control over it, especially as literary content becomes increasingly sold and consumed in digital form. “The publisher's job is to publish, and that includes electronically,” he says.

Publishers are determined to make sure that they will benefit from the digitisation of their product. They could certainly do with any extra growth it may bring: consumer-book publishing is one of the most mature industries in media. The total market for all books worldwide totalled $107.5 billion last year. But the American market grew by only 1.8% a year between 1999 and 2004, according to Veronis Suhler Stevenson, a bank. Moreover, the amount of time that people spend on books is falling gradually, to the benefit of television, the internet and video games.

So far, the internet has been a double-edged sword for book publishers. On one hand, online sales are growing at 8-9%, much faster than at book shops. But at the same time, the internet is facilitating massive growth in sales of used books, from which authors and publishers get nothing. Second-hand book sales represented 1% of trade sales in 2002 in America, according to PricewaterhouseCoopers, but by 2004 had grown to almost a fifth.

Publishers admit that the entry of Google and other tech firms has galvanised them to pay attention to digitisation. “The fact is that Google's and Amazon's actions have stimulated the energy for this to take off,” says Ian Hudson, group managing director of Random House in London. “Otherwise we would have dragged on for ages working it out.” Now they are focused

closely on the issue of when digitising books requires the permission of the copyright holders, along with a payment.

Most of the initiatives avoid the issue by digitising only works that can be freely reproduced. MSN is initially scanning only books from the British Library that are out of copyright. In other cases, firms are striking deals with publishers for the right to provide online access. This is how Amazon can offer its long-standing “search inside this book” feature, as well as its plan to sell access to pages for a fee. As for Random House, its content will be sold on a pay-per-page basis through third parties like search engines and booksellers (though pages cannot be saved, printed or copied).

Google, however, is playing it both ways. While it does seek permission from publishers for certain books, it believes that digitising libraries does not require permission from the copyright holder, under a “fair use” provision that allows excerpts to be used freely. Google considers the service simply an enhanced card catalogue system.

Trade associations representing publishers and authors are suing Google, claiming that the very act of scanning books without permission is an illegal reproduction. The case promises to keep the lawyers busy. Google seems to have begun back-pedalling, noting that the books it is currently scanning are ones that are out of copyright. It is even working on a model of pay-per-view charging, according to one publishing executive.

Few dispute that the services will be a boon for the public and that books will eventually go digital, though the technology for portable display devices is still in its infancy. “As an industry we should embrace the opportunity that that will bring,” says Mr Newton. In time, once robust economic models can be worked out, they will benefit authors and publishers too. In 1987 Stewart Brand, a technology pundit, said, in the very next breath after his oft-quoted aphorism: “Information also wants to be expensive.” But no one seems to remember that bit.

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Israel's technology industry

Punching above its weight

Nov 10th 2005
From The Economist print edition

The secret of Israel's success

THIS week's initial public offering (IPO) by Saifun, an Israeli chip-design firm, on the NASDAQ exchange was one of the biggest flotations by an Israeli company in America for years. Saifun has developed a new, more compact form of flash memory, demand for which is booming as the storage capacity of mobile phones, music players and other portable devices increases. It has already licensed its technology to companies including Sony, Infineon and Fujitsu, and is expected to sign a deal with Samsung soon.

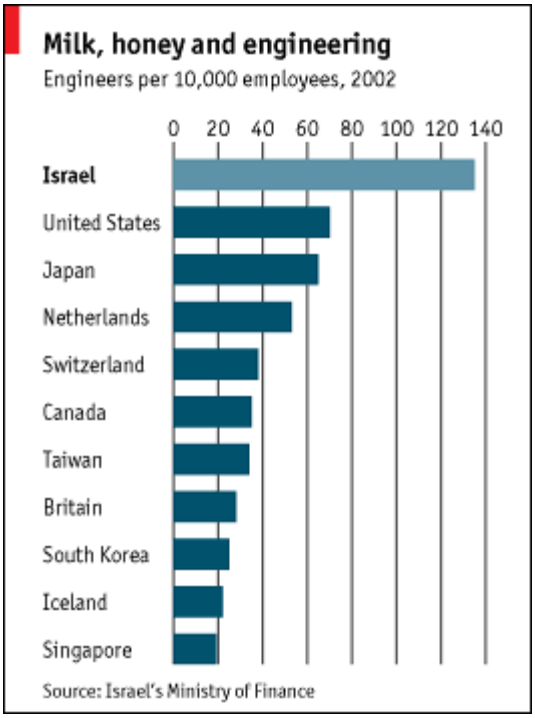
Having been valued by the IPO at $675m, Saifun now joins a list of globally successful Israeli technology firms such as Amdocs, Check Point and Comverse. Indeed, Israel is third only to America and Canada in the number of companies listed on NASDAQ, and the country attracts twice the number of venture-capital (VC) investments as the whole of Europe, according to Ed Mlavsky, a veteran of the Israeli technology industry and the chairman and founder of Gemini, a big Israeli VC fund that was one of the investors in Saifun. In 2003, 55% of Israel's exports were high technology, compared with the OECD average of 26%. Tech giants such as IBM, Motorola and Cisco have research centres in Israel, which is also where Intel developed its Centrino chip. Not bad for a country with a population of 6.9m.

Why is Israel—sometimes called the “second Silicon Valley”—so strong in technology? For several reasons, says Mr Mlavsky. First, the pump was primed by government grants in the 1970s, by the BIRD Foundation (a joint American-Israeli initiative that supported many start-ups before VC money was widely available), and by government schemes to encourage Russian immigrants who arrived after the collapse of the Soviet Union.

The second big factor is the army. “The army gets hold of everybody at age 18, and if they have a glimmer of potential, it catalyses their transformation into engineers or scientists,” says Mr Mlavsky. The technically minded are given projects to develop and run, and are allowed to keep any intellectual property that they develop, which results in many spin-outs. It also means that once they get to university, trainee engineers already have practical experience and a problem-solving mentality. Israel has 135 engineers per 10,000 employees, compared with 70 in America, 65 in Japan, and 28 in Britain (see chart).

The small size of Israel's home market is also, paradoxically, an advantage. While a British start-up, say, will look to its home market to get started, Israeli firms cannot. Accordingly, they look to America for customers, so that Israeli start-ups function as “mini-multinationals”

from the off—and are instantly exposed to the world's most competitive high-tech market. Similarly, Israel's relative lack of land and resources serves to steer entrepreneurs towards high technology instead.



Naturally, cultural factors play a part too. Around 5% of start-ups in America are headed by repeat entrepreneurs, says Mr Mlavsky, compared with around 30% in Israel. “The whole culture, we're like junkies, and the real kick is success, not the fruits of success, so we want to do it again,” he argues. Israeli entrepreneurs are often workaholics who tend not to change their lifestyles much after becoming successful, he says. Gil Shwed, the boss of Check Point and one of Israel's richest men, still has a regular DJ slot at a Tel Aviv restaurant on Wednesday nights, for example.

The bad news for other countries that wish to encourage the development of their technology industries is that few of these factors can be replicated. Singapore's attempt to establish itself as a biotechnology centre faces the challenge of encouraging risk-taking and entrepreneurialism in a highly conformist society. And Britain is hardly likely to introduce conscription in order to boost the fortunes of the technology cluster around Cambridge University. In technology, as in so many other ways, Israel is a special case.

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Sara Lee

Chock full o' brands

Nov 10th 2005 | CHICAGO
From The Economist print edition

Sara Lee has discovered the virtues of focused brand management

A COMPANY famous for cheesecake and sausages is bound to have trouble slimming. But since Brenda Barnes took over the top job earlier this year, Sara Lee has been trying determinedly to shed excess brands and renew its focus on food and drink. Ms Barnes threw further light on those plans last week, after announcing poor results for Sara Lee's most recent quarter. She says that she hopes to gain $3 billion from the sale of some peripheral brands, as well as from the previously announced disposal of some popular lines of underwear and clothing. Altogether, the businesses that Sara Lee wants to unload account for 40% of its $19 billion in annual sales.

Other consumer-goods firms are far ahead of Sara Lee in winnowing their brand portfolios. Giants such as Procter & Gamble and Unilever have been at it for years; and food companies such as Heinz and General Mills have also moved quicker than Sara Lee. They have done so partly in response to the clout of big retailers such as Wal-Mart. The idea is that as retailers sell more and more goods under their own labels, the best way to fight back is for the likes of Sara Lee to concentrate on building up a few powerful brands in selected areas, rather than on developing scores of brands as used to be the fashion.

P&G's strategy is to concentrate on household-cleaning products and personal-care items such as soaps and toothbrushes. Ms Barnes, a former marketing whiz at Pepsi, has her eye on the shopping aisles for butchers, bakers and coffee-makers. That is risky, since it involves selling the Hanesbrand division, which houses some of the company's most valuable brands: Hanes underwear, Champion sportswear, Wonderbras and Playtex panties. Credit Suisse First Boston, an investment bank, reckons that Sara Lee aims to reap $1.8 billion from the spin-off. Last month, the company also sold its retail coffee business—which deals in brands such as Chock Full o'Nuts and Hills Brothers—to Italy's Segafredo Zanetti Group. But it has held on to its Senseo brand of coffee.

Sara Lee will also keep a few household goods in its stable, such as Kiwi shoe polish. But what remains, after unloading some other peripheral brands, will largely be a collection of baked goods and packaged meats. Besides the Sara Lee brand itself, famous for its cheesecakes and other desserts, it also sells Earth Grains breads, Jimmy Dean sausages, Ball Park franks (hot dogs), and hams and other packaged meats under the Hillshire Farm label.

None of these brands is overly exciting, but Ms Barnes is betting that once Sara Lee concentrates on them it will be better able to innovate and boost profit margins. She is moving quickly to centralise product planning and marketing for those brands in Sara Lee's headquarters, near Chicago. She also promises to spend more on marketing. Investors hope that extra investment will expand Sara Lee's bottom line, as surely as an extra slice of cheesecake.

Music mergers

Duet in the offing

Nov 10th 2005
From The Economist print edition

Will EMI take over Warner Music? Or will it be the other way around?

Get article background

FOR years, EMI and Warner Music, the two smallest recorded-music majors, have been circling each other, talking in private and public about merging. Last year Sony united its music business with Bertelsmann's in a 50/50 joint-venture, creating a firm that rivals Universal Music, the biggest. The next merger will surely be EMI and Warner Music. Both companies, of roughly equal size, are desperate to be the one that takes over the other. The music industry is waiting to see which of them has the nerve to pounce first.

Earlier this year it looked like Warner Music, an American firm owned by a group of private-equity investors, would come out the winner. In February EMI, a slightly larger company listed in London with a market capitalisation of £1.8 billion ($3.1 billion), issued a profit warning, partly because of delays on albums from two of its biggest bands, Coldplay and Gorillaz. Its shares fell by more than 15%, and it looked vulnerable. In the following months EMI watched nervously as Warner Music prepared for an initial public offering (IPO), aided by a wave of optimism about the prospects for digital-music sales.

In the end, however, Warner Music's IPO did not go as well as expected. Merrill Lynch dropped out as an underwriter because its analyst, Jessica Reif Cohen, told the firm's bankers that the IPO was overpriced. Warner Music had to cut the price from $22-24 to $17, and its shares have since fallen to below that level.

EMI's shares, on the other hand, have more than doubled since a low in 2003, and it recently issued a strong trading statement. Some people in the music industry reckon that the British firm is ready to seize the moment and that it will bid for Warner Music before the end of the year. This month, Warner Music's post-IPO lock-up period for insiders comes to an end, meaning that its private-equity investors can sell the rest of their shares. Its biggest private-equity shareholder, Thomas H. Lee Partners, has lost hundreds of millions of dollars on Refco, a futures and commodities broker that went bankrupt last month, and may therefore be more interested in selling its stake in Warner Music.

Warner Music and EMI came close to merging three times between 1997 and 2003. In 2000 the European Commission blocked a deal on competition grounds. But the regulators might take a more forgiving approach next time. Even though a merger would reduce the number of music majors from four to three, competition authorities might well accept that the recorded-music industry is in retreat because of falling sales and has no option but to consolidate.

The two companies certainly have complementary businesses: EMI has a particularly good international repertoire, whereas Warner Music is strong in the huge American market. A merger

could bring about £100m-150m of savings a year, according to Morgan Stanley, even though the companies have already cut deeply in the last few years. A merged EMI/Warner Music would be better placed to compete with Universal Music and Sony/BMG, whose broader range of artists gives them far greater leverage with radio stations and big retailers.

But a public struggle at Sony/BMG's joint-venture, where Bertelsmann is trying to get rid of Andy Lack, Sony's chosen chief executive, will have impressed upon Warner Music and EMI that mergers of equals tend not to work—one side or the other has to be in charge. When EMI bids for Warner Music, or vice versa, the battle is sure to get nasty. There is little love between two management teams that have different philosophies. EMI prides itself on its strong record in finding and developing new talent. Warner Music, on the other hand, has pared back its spending on finding new talent to nearly half of EMI's, according to a report from Ms Cohen. Whereas EMI has a broad roster of international artists, Warner Music concentrates on American and British musicians.

Warner Music's big advantage is its shareholder structure: its private-equity owners may be able to move more quickly and aggressively than EMI's diverse institutional shareholder base. EMI's weak presence in America, where it had an 11% market share at the end of October, compared with 17% for Warner Music, is also a serious drawback. The fight, when it comes, will be a close one.

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Pernod

Local tastes

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From The Economist print edition

Pernod has ambitious plans for the global drinks industry

THE world's cocktail-makers have come up with some unlikely combinations in their time. It takes an inspired (or twisted) mind to think of combining crème de menthe, crème de cacao, vodka and cream to make a Flying Grasshopper. A similarly ambitious mix is currently being attempted in the global drinks industry, as Pernod Ricard of France is merged with Allied Domecq. Pernod is associated with that quintessentially French drink, pastis, while Allied Domecq of Britain was strong on the Anglo-Saxon tipples, whisky and gin. Will combining the two create something delicious or disgusting?

When Pernod completed its €11.4 billion ($9.5 billion) acquisition of Allied Domecq in July, it became the second biggest drinks company in the world. Its clash with the biggest—Diageo—should be fascinating, because the two companies are run on radically different lines. Diageo believes in centralisation and standardisation. Pernod has always given local operations and brands plenty of autonomy, a philosophy it will extend to Allied Domecq brands like Beefeater gin, Ballantine's whisky and Malibu rum.

The company has come a long way since Paul Ricard founded Ricard, a producer of pastis, an aniseed-flavoured aperitif, in 1932 in Marseilles in southern France. For decades Ricard remained a family firm operating mainly in France. In 1975 Ricard merged with Pernod, another French maker of pastis. Three years later Paul Ricard's son Patrick became boss of the company. With his father's blessing Ricard junior started an international spending spree: he bought America's Austin Nichols, producer of Wild Turkey whiskey, Irish Distillers, another whiskey maker, and Jacob's Creek, an Australian wine company. In 2001 he took over 38% of Seagram, a Canadian conglomerate with a large spirits portfolio.

But the acquisition of Allied is still a transforming deal for Pernod, says Matthew Jordan at Dresdner Kleinwort Wasserstein, an investment bank. With the Allied takeover Pernod's turnover will increase from €3.5 billion last year to about €5.8 billion this year. Pernod Ricard is acquiring a host of tired or declining brands. It is also taking over all of Allied's liabilities, including tax payments and a pension deficit of £387m ($674m).

In an industry in which branding is everything, the distinction between the Diageo and Pernod ways is most obvious when it comes to marketing. To cater to local demand Pernod adapts its ad campaigns to each country and employs a large number of small local ad firms. Diageo hires fewer ad agencies and runs big, global campaigns for its bestsellers. The publicity campaign for Diageo's Johnnie Walker whisky (“Keep walking”) is the same everywhere, whilst ads for Pernod Ricard's Chivas Regal brand are adjusted to local audiences.

So far Pernod Ricard has managed to balance global scale with local appeal, but will it work in a much bigger group? The Pernod people see no reason why not: “We have managed the integration

of a large group before," says Richard Burrows, one of Pernod's two director generals, who are second in command after Mr Ricard. Pernod has an excellent track record of turning around flagging brands. After years of decline under Seagram's stewardship Chivas Regal's volumes grew by 12% and its revenue by 14% last year. The Martell cognac brands also recovered.

The Pernod strategy makes it harder to cut costs through centralisation and to control a brand's image. But in Mr Burrows's view the advantages of decentralisation far outweigh its handicaps. He thinks Pernod is better able to adapt to the big differences in the way alcohol is consumed in different countries. In Asia, cognac-drinkers are middle-aged, wealthy men who sometimes mix expensive spirits with green tea. In America, cognac is the drink of choice of African-American rappers, who prefer downing it on the rocks.

The firm's latest results, released this week, show that incorporating Allied Domecq has reduced Pernod's growth rate, which has been slowing lately in any case. But if the strategy works in the long run, Pernod Ricard thinks it can become the world's biggest drinks company over the next decade—without any further big acquisitions. That would taste as sweet as a Flying Grasshopper.

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Corporate mergers

Heartbroken?

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Buy me, or I'll sue

LEFT standing alone at the altar, Guidant, a maker of medical devices, is pursuing its no-show groom the American way, by going to court. On November 7th it filed a lawsuit against Johnson & Johnson (J&J), a huge drugs and consumer-goods firm, seeking to force it to complete its $25 billion purchase. The merger was announced last December, but J&J claims it is within its rights to back away, evoking a “material adverse change” clause in the merger contract which frees a corporate groom from his obligations if, on closer inspection, his would-be bride turns out not to be the innocent young thing she said she was.

J&J has strong grounds for suspicion. In the past few months, Guidant has been the subject of a series of unpleasant revelations. Almost 200,000 of its pacemakers and 88,000 heart defibrillators have been affected by safety warnings or recalls. It emerged that Guidant had long failed to notify doctors of the risks of one sort of defibrillator short-circuiting. The Securities and Exchange Commission has opened a formal inquiry into “product disclosures and trading in Guidant stock”. Then on November 3rd came the worst blow of all, a lawsuit from corporate America's worst nightmare: Eliot Spitzer, New York's attorney-general, alleges that Guidant kept from the public a design flaw in one of its defibrillators. Guidant's shares have fallen by over 20%, suggesting investors no longer expect the merger to go ahead.

Yet it is not certain that J&J will defeat Guidant's claim for “specific performance” of its promise to acquire the firm. Under American law, the meaning of “material adverse change” is determined deal by deal, says George Sampas, a lawyer at Sullivan & Cromwell. And although the relevant clause in this case looks fairly standard and the case will be tried in New York, unusually, under the terms of the merger agreement, it will probably be decided according to Indiana state law, in which there is little precedent. Much will depend on whether the court thinks Guidant's problems are a temporary blip or, as J&J argues, long-term and fundamental.

Guidant will hope that the court finds similarities with a 2001 ruling in Delaware, which required Tyson Foods to complete its agreed acquisition of IBP, a beef and pork processor. Leo Strine, an influential Delaware judge, ruled that rather than any material adverse changes, Tyson Foods had simply been overcome by buyer's remorse at offering too high a price. The merger went ahead, though it has not been a happy marriage.

Given all the revelations at Guidant, it is hard to imagine any judge finding that J&J is simply suffering from buyer's remorse, reckons Dale Oesterle, a law professor at Ohio State university. Rather than expecting to win, Guidant may have brought the case in a desperate bid to get J&J to return to the negotiating table instead of walking away. J&J might conclude that a firm prepared to sue to be bought is not worth having at any price.

Saudi oil

The world's number one

Nov 10th 2005
From The Economist print edition

The future is bright for Aramco

AMERICANS were treated this week to the spectacle of oil-company bosses, including the heads of Exxon Mobil and Chevron Texaco, being cross-examined on Capitol Hill. The bosses of big western firms stand accused of “price gouging” and other supposed crimes. What the politicians rarely say is that it is OPEC that fixes prices on the world market—and that even the biggest western firm is but a pygmy compared to Saudi Arabia's national energy company.

Aramco, which controls nearly all Saudi oil production, is 20 times the size of Exxon. The Saudis are the world's leading producers and exporters of oil today, cranking out perhaps 11m barrels per day (bpd). The company has recently unveiled a $50 billion investment plan designed to lift Saudi output to 12.5m bpd by 2009. For comparison, Iraq and Venezuela produce less than 3m bpd of oil each, and no big private-sector company produces even that much. In short, Aramco is the Goliath of the oil world.

But for how long? Critics have been attacking the firm on two fronts. Petro-pessimists, including some independent geologists, have argued that the Saudis do not really have all the oil reserves in the ground that they claim, and that the world is nearing the peak of oil production. Matthew Simmons, an energy investment banker, has argued in a recent book that Saudi fields are in such bad shape that even Aramco's current production levels are unsustainable.

Happily for the world economy, there is reason to think the critics are too pessimistic. This week, the International Energy Agency (IEA), a quasi-governmental outfit, released its annual World Energy Outlook. The focus of this hefty tome is energy from the Middle East and North Africa—especially Saudi oil. After exhaustive analysis, the IEA concludes that the sceptics are wrong: there is more than enough oil in the ground to meet expected demand beyond 2030. It argues that Saudi Arabia's production levels can not only be sustained, but expanded dramatically to over 18m bpd by 2030. Aramco's talk of sustaining an output of 15m bpd for 50 years does not seem so unreasonable.

All is not good news, however. Aramco's oil could indeed keep gas-guzzlers humming for many years yet. But if energy demand continues to soar at the current scorching pace, especially in America and China, the only place those extra barrels of oil can come from is the Middle East. That, warns the IEA, means a sharp rise in the market share and pricing power of Aramco and its neighbours in the Persian Gulf—and with it, the prospects for a future oil shock.

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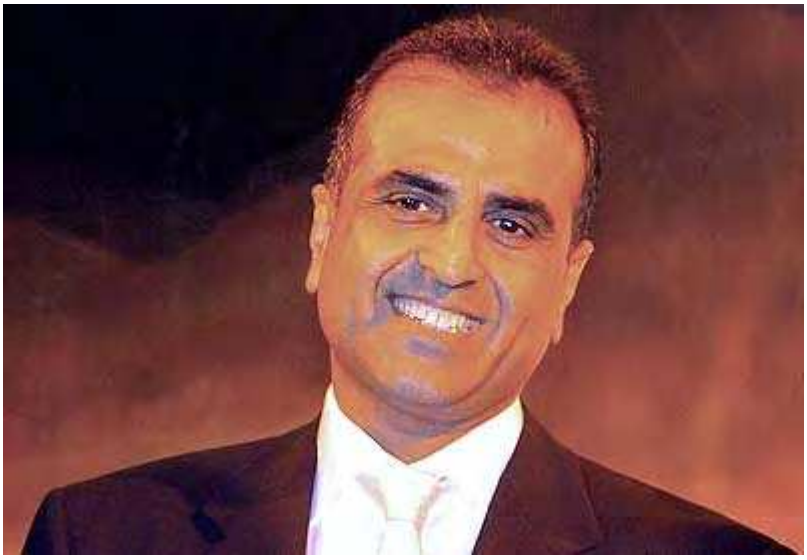
Face value

The next big thing

Nov 10th 2005
From The Economist print edition

AFP



A successful telecoms entrepreneur, India's Sunil Bharti Mittal, branches out

"WE ARE out of the war", says Sunil Bharti Mittal, of his telecoms firm, Bharti Tele-Ventures, "and into peacetime." And, a more flamboyant tycoon might add, "we won". In just ten years, Mr Mittal has built India's sixth-largest company by market capitalisation, with 15m customers and $2 billion in annual revenues. It was also, last month, the recipient of what is billed as the largest single foreign investment ever made into the country. Mr Mittal is enjoying a big peace dividend. His biggest challenge now appears to be how to spend it.

The investor was Vodafone, a British mobile-telephony giant. It paid about $1.5 billion for 10% of Bharti Tele-Ventures, buying 5.7% from Warburg Pincus, a private-equity firm, which has now left the business and booked a fabulous profit. Vodafone acquired the rest of its stake by investing in the Mittal family holding company, Bharti Enterprises. Bharti is generally reckoned to have got a pretty full price.

The deal was in part a consequence of a long-delayed victory in one of the war's protracted battles: to persuade the government to lift the "cap" on foreign investment in telecommunications, from 49% to 74%. Mr Mittal says that even after the Vodafone investment Bharti's foreign ownership would not have breached the 49% limit, although SingTel of Singapore is also a big investor, owning 31%.

Importantly, however, the easing of the cap will allow Vodafone or SingTel to build up their stakes in future. This has led to speculation that Mr Mittal will quit telecoms altogether. This he finds

tiresome. Older family-run conglomerates are never asked this kind of question, he says, and many control their firms with far less than the 46% of voting rights that he enjoys. It is only first-generation entrepreneurs, he complains, whose long-term commitment is constantly questioned.

Moreover, why would he want to leave the business? India, like its bigger brother, China, is a mobile-telephony *Wunderkind*. Industry-wide, India has seen a compounded annual growth-rate in the subscriber base of about 90% over the past five years. With around 65m subscribers at present, it is adding about 3m a month. India has a “teledensity”—telephone availability per person—of about 9%. In the countryside, where two-thirds of Indians live, it is below 2%. By comparison, in countries such as Bolivia and Moldova, which in terms of average purchasing power are poorer than India, teledensity is about 24%.

In keeping with the euphoric expectations, India's telecommunications minister has set a target of 250m telephone connections—200m of them mobile—by the end of 2007. There are, however, sceptics. They argue that cities in India are already close to mobile-phone saturation and that, without big deregulation of the rural market, and investment in infrastructure there, it will be impossible to maintain the rapid growth. At present, mobile networks reach no more than 25-30% of India's population. Mr Mittal, of course, is at the optimistic end of the argument, foreseeing “a big hockey-stick effect”—ie, an almost vertical curve on the graph. He expects new connections to climb to 5m a month, as happened in China, and reach 300m in total by the end of 2010, by when China will have 600m.

Still, he is not planning to invest Bharti's share of the Vodafone money in telecoms, and “we are not a company that likes to keep money in the bank.” Mr Mittal sees himself as part of a “new entrepreneurial class”, for whom “the kick of doing something transformational is bigger than the money.” So he is looking for new areas of expansion. These include insurance, through a joint-venture with AXA, a big French insurer, and infrastructure, where he suffered a setback when Changi, a Singaporean airport operator, withdrew from a consortium planning to bid for the modernisation and privatisation of Delhi and Mumbai airports.

Greener pastures

But the new venture closest to Mr Mittal's heart seems to be agriculture. A year ago, he launched FieldFresh Foods, a $50m, 50/50 joint-venture with ELRO, an investment company founded by the Rothschild family. The aim was to turn India into “a global preferred food basket”, by selling fruit and vegetables from his native Punjab in western supermarkets.

Like other Indian tycoons who have made their fortunes in software, Mr Mittal wants to help the poor rural majority left behind by the urban boom. Horticulture offers, says Mr Mittal, a better route to job creation, given India's talents and limitations, than does labour-intensive manufacturing. Wheat- and rice-farming now need just one worker an acre. Fresh produce, he says, requires around ten. In the broadest terms, this is Mr Mittal's vision of the growing role a youthful, vibrant India can play for an ageing rich world: “We will provide the hands and minds to work for the world.”

Nobody, however, thought it would be easy. Between 35% and 40% of all fresh farm produce in India is wasted, rotting where it is harvested or in transit. Many of FieldFresh's first shipments have suffered a similar fate, thanks to India's creaky infrastructure, and, in particular, the failings of its airports, where, in the words of Ravi Deol, FieldFresh's chief executive, “the cold chain breaks”. He has stopped all air shipments while the problem is tackled. Fortunately, says Mr Mittal, the prime minister's office is driving the government's efforts to help.

Mahesh Uppal, a telecoms consultant, says that Mr Mittal's particular talent is combining

entrepreneurship with political skill. Mr Deol praises his combination of vision—he's “a big-picture man”—with the ability to delegate. The big picture, for now, is another “disruptive business model” that would give a would-be serial entrepreneur “the next big fix”. As yet, however, it is only a vivid sketch, waiting for the detail.

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World airlines

Lining up for profits

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From The Economist print edition

AP

After losing $43 billion in five years, airlines are at the beginning of a massive boom

MENTION the airline industry in polite company and a few truisms invariably come trundling out: airlines are loss-making, inefficient, prone to extreme cycles and vulnerable to fickle consumers. Why, most of America's industry is currently bankrupt, flying on only thanks to that country's Chapter 11 cushion. Only an idiot would buy shares in British Airways (BA), which currently owes almost half its £3.5 billion ($6.1 billion) market value to its pension fund. And so on.

The trouble with truisms is that they can obscure big changes as they start to happen. In fact, the airline industry is poised for an almost unprecedented boom, as a new generation of planes is combining with better business models and huge volume growth in new markets. This year an industry with revenues of about $400 billion will end up paying $97 billion for its fuel. According to IATA (the International Air Transport Association), had the price of oil stayed where it was in 2003, at $30, instead of rising to the average $57 expected for the whole of this year, the world's airlines would have made more profit ($45.6 billion) than they have lost in the past five years. (This, says IATA, is also partly a result of a 34% improvement in labour productivity.)

But there is more to it than savage cost-cutting; traffic volumes are growing. International traffic has risen by 8.3% so far this year, compared with 2004. In America, total traffic is up by 5.4%; in Europe the rise is 6%. In Asia, IATA is forecasting continuing annual growth of 6.8% through to 2009: China and some east European countries will go on growing by around 10%.

But perhaps the most conclusive indication of brightening skies is the boom in aircraft orders that is stretching Boeing and Airbus production plants to the limit. Airbus is scouring Europe and

farther afield for 1,000 engineers to push ahead with its new long-haul A350 250-300-seat plane and bring its super-jumbo A380 into service without adding to the six-month delay that has already pushed its first commercial flight for Singapore Airlines back to the end of next year. Boeing is booming even more, with about 650 orders under its belt already this year, compared with just over 400 for Airbus at the end of September. Some observers think Boeing could finish this year with almost 1,000 orders, while Airbus will net nearly 900. In a good year the two manufacturers usually share 800 orders between them. This year's numbers will be about a quarter higher than the record number of total orders set in 1989.

Because of the ongoing crisis among American carriers and the global worry over the high oil prices that have doubled jet-fuel costs to nearly $90 a barrel in two years, it is easy to forget the advances being made in many parts of the world. New no-frills airlines are springing up, not just in Europe (where there were around 50 at the last count), but in South Asia and the Middle East, too. India is liberalising its market, allowing foreign carriers such as Virgin Atlantic, bmi (formerly British Midland) and BA more flights. Passenger numbers have risen to 59.3m from 48.7m in the past year, thanks to the arrival of new local airlines such as Kingfisher and SpiceJet. In China consolidation has already taken place; seven small airlines have been folded into the big three—Air China, China Eastern and China Southern. Two and a half years ago Chinese carriers were zapped with the scare over the SARS disease, but their traffic recovered smartly within six months. China Eastern has just reported third-quarter results showing revenues up by 43% and profits more than doubling to 673m yuan ($83m), while China Southern reported net income quadrupling to 852m yuan in the past three months, compared with the same period in 2004.

In Europe, consolidation has started, led by the merger of Air France and KLM. Eastern Europe sports some of the fastest traffic growth in the world, with Poland set to grow even faster than China. BA is inching ever closer to Iberia, attracted by its profitability and its complementary network of routes to Latin America. South America itself has seen strong double-digit traffic growth in recent months, and some start-ups such as GOL in Brazil are prospering as low-cost carriers. Africa, which has had only three viable carriers (Kenya Airways, South African Airways and Ethiopian Airlines) now has a new Nigerian flag-carrier in the form of Virgin Nigeria, 49% owned by Sir Richard Branson's Virgin Atlantic. Sir Richard wants the venture to open up routes across Africa, which is notoriously deficient in air connections. He thinks that Lagos, in one of the biggest and richest countries and halfway up the continent, is a much more natural hub than Johannesburg or Cape Town.

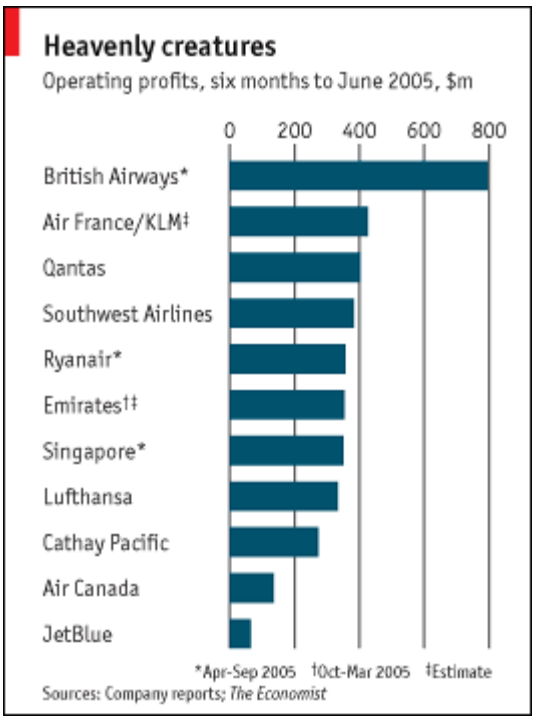
A new chapter

Bad news continues to flood out of America. September saw two more big carriers, Delta Air Lines and Northwest, tumble into Chapter 11 bankruptcy protection. Delta says it will lose $2 billion this year. Northwest's losses have ballooned from $46m in the third quarter of 2004 to $475m in the same period this year.

Behind the headlines, things are looking less bad. After three years in Chapter 11, United Airlines has just reported a loss of $1.8 billion—its 21st consecutive quarterly loss. But that is all down to accounting charges related to its planned emergence from Chapter 11 in February, which is now looking more credible after several false dawns in the past. At an operating level United had an underlying profit for the July-September quarter of $165m. American Airlines (AA) cut its losses in the summer quarter from $214m last year to $153m, while Continental (with AA, the only network carrier to avoid bankruptcy) reported a profit of $61m compared with a loss of $18m last year in the third quarter. Southwest Airlines, the biggest of the no-frills airlines, reported a rise in third-quarter net profit from $119m to $227m, on the back of an 18.8% rise in revenues, helped by price increases.

But the really bright spot on the devastated landscape of America's big six airlines is that the three of them that went bust are at last doing something positive about solving the industry's problems. Ever since their troubles began emerging in the early summer of 2001, America's airline industry has been like a rabbit caught in the headlights. No consolidation took place for two reasons: no network carrier was strong enough to reduce capacity by swallowing the weaker ones; and none of the financially healthy no-frills airlines, such as Southwest, had any appetite for buying into the loss-making business model of the network airlines. But now that could be changing, and there is some hope that excess capacity in the American domestic market could be disappearing. For a start, US Airways has merged with America West to form a new carrier (called US Airways) and escape from Chapter 11. In the process they are shedding 59 planes and cutting their combined capacity by 15%. There is speculation that further mergers could take place, with Delta or Northwest tying up with Continental.

Until now the conventional wisdom (borne out by facts since the early 1990s) has been that the bankruptcy law in America, by allowing an airline to stay in the air with lower costs because it does not have to pay some of its creditors, served perversely to make matters worse. Airlines in Chapter 11 tend to be run purely for cash and therefore cut fares to attract more customers. This perpetuates surplus capacity and depresses revenues and profitability across the industry. But bankruptcy also has the potential to improve things for the better if only airline bosses grasp the opportunity. As Keith McMullan of Aviation Economics, a consultancy, points out, “Chapter 11 enables them to get rid of unwanted aircraft, thus facilitating a sizeable capacity reduction if desired.”



Without Chapter 11, airlines hang on to planes and even expand their networks to create more revenue to cover their high fixed costs. But Chapter 11 leaves them free to walk away from aircraft leases or allow redundant planes to be re-possessed. Fewer planes means lower fixed costs. Although many airlines cut capacity after the recession that began in 2001, another round of drastic cuts is under way. Delta has pulled out of the Dallas-Fort Worth hub as it cuts one-fifth of its capacity. Already it has got rid of 40 aircraft and has another 80 to go. Northwest will trim capacity by over 10%. Nor are these the only tough decisions airlines are taking.

Northwest has said that it will outsource cabin service if it does not get further wage concessions from employees. Delta is seeking overall cuts of $3 billion out of annual running costs of $18.3 billion. When its pilots, who agreed to cuts that saved the airline $1 billion last year and staved off bankruptcy for a while, refused to agree to a further $325m in reductions, Delta went to the bankruptcy court last week to get approval to tear up its contract with its pilots union. Similarly United won approval, upheld also last week on appeal, to close its flight attendants' pension plan. Some carriers are trying to improve their product even as they struggle for survival. One of the problems for the mainstream network carriers in recent years has been the downgrading of their service on board and on the ground, even as the no-frills carriers added features, such as seat-back live television, that made them more like full-service airlines. In effect, the network airlines were moving downmarket, while the no-frills carriers, such as JetBlue and Southwest, were moving up. A year ago United reacted to this by introducing a premium service on its East Coast-West Coast flights, with upgraded service levels in coach (economy) class and in business seats.

Un-American behaviour

Faced with tough competition at home from no-frills airlines, big American carriers are all seeking to boost their international services. Delta wants a 25% increase in its international capacity. United, which last week signed a flight codesharing (joint marketing and air miles) deal with Swiss International Air Lines on top of its central role in the global Star Alliance, has long identified international routes as one of its best sources of profits. Northwest, with an important hub in Tokyo, is also counting on international services to help it get back on its feet.

Although some of the international push will be towards South American markets and Asia, the main thrust will be across the Atlantic to European cities. Transatlantic travel by Americans has still not recovered fully from the decline caused by terrorist attacks on both sides of the ocean since 2001: in particular, the July bombings in London have depressed traffic. The temptation for the American carriers is to drop prices to lure back both holiday-makers and business passengers. Virgin Atlantic, which relies on transatlantic routes for about two-thirds of its traffic, notes that American carriers are offering corporate customers discounts approaching 50% of published fares. Sir Rod Eddington, who retired as chief executive of BA at the end of September, used his farewell address to London's Aviation Club to lambast the injustice of the way America, in effect, subsidises its airlines by allowing them to keep flying without paying their bills, so offering unfair competition to European airlines, which (with the exceptions of Olympic and Alitalia) no longer enjoy state subsidies.

A fares war should add spice to the negotiations on transatlantic air travel that open in Washington, DC, on November 14th, when representatives of the United States and the European Union sit down to try to negotiate a comprehensive deal liberalising air travel between Europe and America. Similar talks started two years ago, when power to negotiate such deals passed from EU member states to the European Commission, but broke down in disagreement in June last year. After a preliminary meeting in Brussels last month, there are fresh hopes for some progress at the Washington talks next week.

The Americans are in no mood to concede much. Even if a few voices in the administration would like a true free-market approach, this is unlikely to be offered. Apart from anything else, any substantial change would have to be ratified by Congress. Transatlantic trade relations are already soured by the row over subsidies to Airbus and Boeing, so any concessions to the Europeans would face a tough time on Capitol Hill, even if the result was that Continental, Delta and Northwest would finally gain access to Heathrow.

Instead, the only hope for progress is a relaxation of how some of the existing rules are applied. The foreign-ownership rules even preclude foreigners from holding the top executive positions in American airlines in which foreign capital owns as much as a 49% stake. If these were relaxed, as now seems likely, this would not need congressional approval. Virgin Group, which has been frustrated in trying to set up Virgin America for the past two years, might find it easier to raise the capital it needs. But some industry figures think Virgin's problem is a dodgy business plan, not protectionist rules.

The shape of things to come

Were America and Europe to surprise sceptics and agree a sort of common market across the Atlantic, it would unleash a revolution in global air travel. With full liberalisation of the two markets that account for more than half of air travel, the rest of the world would follow. Instead of the present trend toward a creeping liberalisation, bilateral deals would do away with all restrictions, allowing airlines to behave like normal businesses, with consolidation and cross-border mergers.

But there is the suspicion that the status quo suits the club of the Heathrow Four (BA, Virgin, United and AA) more than they admit, and that they enjoy the moral high ground knowing that they will never have to admit outsiders. A different aviation trade row is brewing in the Middle East, and illustrates a new trend in long-haul travel. Air France, Lufthansa, Qantas and BA are getting increasingly steamed up about the emergence of the Middle East as a force in long-haul aviation.

The pace has been set by the irrepressible Emirates airline, which many reckon will have more long-haul capacity than BA or Lufthansa by around 2010, as it doubles its current fleet of 80 aircraft. Emirates is based in Dubai and belongs to the ruling Maktoum family, which also owns much of the city state's business and is pouring billions of oil revenues into diversifying its economy. Emirates enjoys a world-class, cheap-to-use airport, as well as low operating costs that come from a tax-free economy and a supply of cheap labour from India and Pakistan. Although Emirates is a well-run airline that receives no obvious subsidy, the European airlines and Australia's flag carrier are crying foul.

They are right to worry. The success of Emirates is leading other Gulf states to start airlines, notably Etihad up the road in Abu Dhabi, where the local rulers are prepared to shovel in billions to make it a success (Emirates was started 20 years ago with only $10m of capital from the Maktoums). The competitors' concern is that Emirates in particular is trying to re-draw the map of global aviation.

Situated halfway between Europe and East Asia, and on the doorstep of South Asia and Africa, it is a natural hub and has a huge network of routes, essentially linking Europe to Asia, Australia and Africa. Thanks to its own open-skies policy (anybody can fly to and from Dubai) it has established, for instance, routes from German and British provincial cities such as Hamburg and Manchester that enable passengers to fly from north Germany or the north of England to Australia or Hong Kong, passing through Dubai, avoiding a change at busy Heathrow or Frankfurt.

Dubai was able to get these open arrangements with the Europeans because it used to be small and insignificant. No more. European hubs risk being increasingly sidelined for certain long-haul flights, while tiny Dubai (population only 1.5m) emerges as a new kind of global, as opposed to regional, hub. This threat to established long-haul carriers can be traced to the burgeoning order books of Boeing and Airbus. In particular, Emirates has boldly ordered no fewer than 45 of Airbus's A380 super-jumbos, each capable of carrying 555 passengers, with operating costs promised to be 15-20% lower than today's Boeing 747s. For those passengers happy to change planes or stop over in Dubai, already an amazing holiday destination offering Florida-meets-Las Vegas attractions, Emirates offers serious competition to other carriers flying between Europe and Asia.

Called to order

But what if the future is point-to-point non-stop travel, for instance, even between Europe and Australia? That is why there is strong interest in some of the upcoming airline orders from Qantas, Singapore and Cathay Pacific—the ones that Boeing hopes will come its way. These could be an alternative guide as to what the new world aviation map might look like. The airlines are expected to opt for large-ish wide-bodied jets (carrying around 250-350 passengers) such as the latest ultra-long-range version of Boeing's 777, the Airbus A340 or the smaller Boeing 787 and Airbus A350, rather than the A380s preferred by Emirates. The key thing about these new sub-jumbos is that they are suited for long-haul point-to-point travel, by-passing the hubs are needed to consolidate traffic for super-jumbos.

The airlines are constantly pressing the manufacturers to produce large and medium-sized aircraft

that can fly anywhere in the world non-stop. Gradually they are getting what they want, particularly with the latest Boeing and Airbus 250-300 seaters on the way. A Boeing 777 took off from Hong Kong on November 9th to fly eastward to London, covering 20,300 kilometres and flying for 23 hours, to set a new record. If flights like that become common, Emirates, with its giant planes and global hub, would be flying in the face of conventional wisdom. If liberalisation were to come along quickly in the wake of a US-Europe deal, the odds would be on the point-to-point model emerging as the winner.

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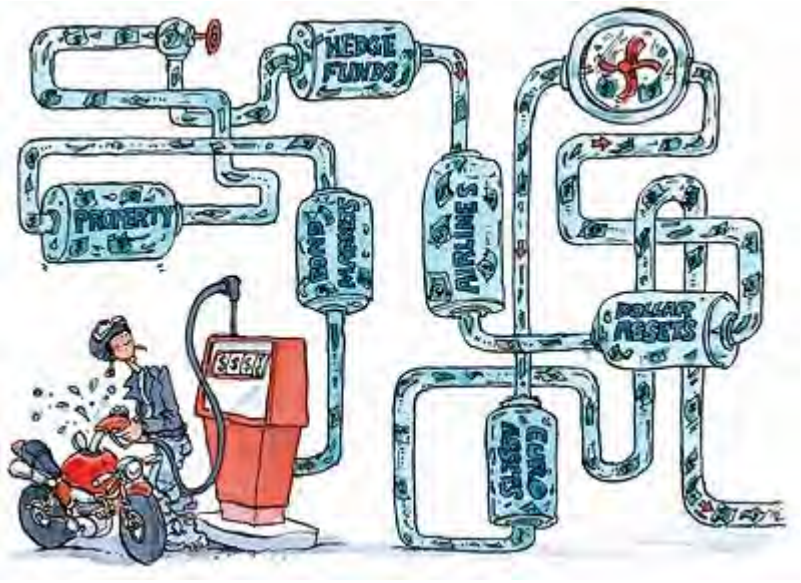
Oil producers' surpluses

Recycling the petrodollars

Nov 10th 2005
From The Economist print edition



Exporters of oil are saving more of their recent windfall than in previous price booms. It's hard to spot where the money is going

Get article background

MANY American politicians and pundits explain their country's enormous current-account deficit by pointing at the surpluses of Asian economies, especially China. Undervalued currencies and unfairly cheap labour, they complain, have undermined America's competitiveness. In fact, looking at the world as a whole, the group of countries with the biggest current-account surpluses is no longer Asia but oil exporters, on which high prices have bestowed a gigantic windfall.

This year, oil exporters could haul in $700 billion from selling oil to foreigners. This includes not only the Organisation of Petroleum Exporting Countries (OPEC) but also Russia and Norway, the world's second- and third-biggest earners (see chart 1 below). The International Monetary Fund estimates that oil exporters' current-account surplus could reach $400 billion, more than four times as much as in 2002. In real terms, this is almost double their dollar surpluses in 1974 and 1980, after the twin oil-price shocks of the 1970s—when Russia's hard-currency exports were tiny. The combined current-account surplus of China and other Asian emerging economies is put at only $188 billion this year (see chart 2 below).

Relative to their economies, the oil producers' current-account surpluses are far bigger than China's. Whereas the IMF forecasts China's surplus to be about 6% of GDP this year, it predicts Saudi Arabia's—not much different in money terms, at just over $100 billion this year—to be a

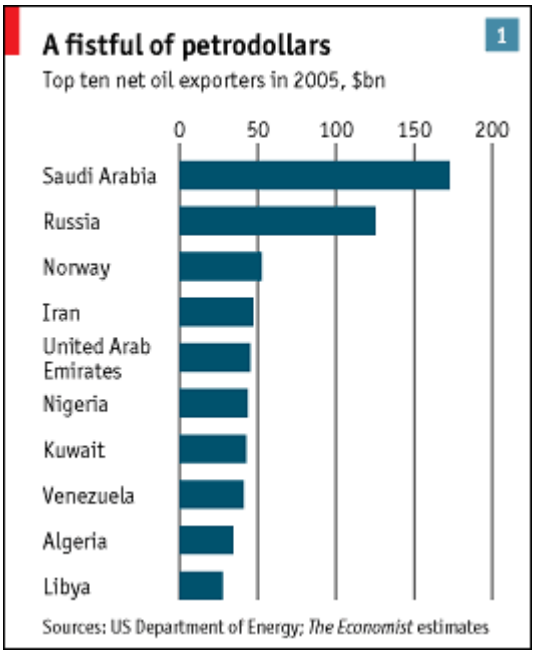
whopping 32%. On average, Middle East oil exporters are expected to have an average surplus of 25% of GDP. Russia might record 13% and Norway 18%.

The rise in oil prices represents a big redistribution of income from those who buy oil to those who produce it. Past periods of high prices have not lasted long, but this time oil producers' extra revenues might prove to be more durable. The futures market expects oil to stay expensive, even though the price of a barrel of West Texas Intermediate, an industry benchmark, recently slipped back to around $60.

An enviable choice

What will happen to all these petrodollars? In essence, they can be either spent or saved. Either way, a lot of the money can be recycled to oil-consuming economies and thus soften the impact on them of higher oil prices. If oil exporters spend their bonanza, they import more from other countries and thus help to maintain global demand. They are unlikely to spend the lot, however, because they tend to have higher saving rates than oil consumers: saving is around 40% of GDP in the United Arab Emirates (UAE) and Kuwait, for instance. A transfer of income from oil consumers to oil producers will therefore lead to a slowdown in global demand.

If they save their windfall, but invest it in global capital markets, they can finance oil importers' bigger current-account deficits—in effect, lending the increase in fuel bills back to consumers. And by increasing the demand for foreign financial assets, they can boost asset prices and push down bond yields in oil-importing countries. This in turn can help to support economic activity in these economies.



Experience shows that oil booms can be a blessing or a curse for producing economies, depending on how wisely the extra revenue is spent or saved. Too often, past windfalls have been celebrated with budgetary blow-outs, while the abundance of money has encouraged the postponement of economic reforms. This time, however, oil exporters seem to be spending less, instead running larger external surpluses, repaying debts and building up assets. In 1973-76, 60% of the increase in OPEC's export revenues was spent on imports of goods and services. In 1978-81, the proportion rose to 75%. But the IMF estimates that only 40% of the windfall in the three years to 2005 will have been spent.

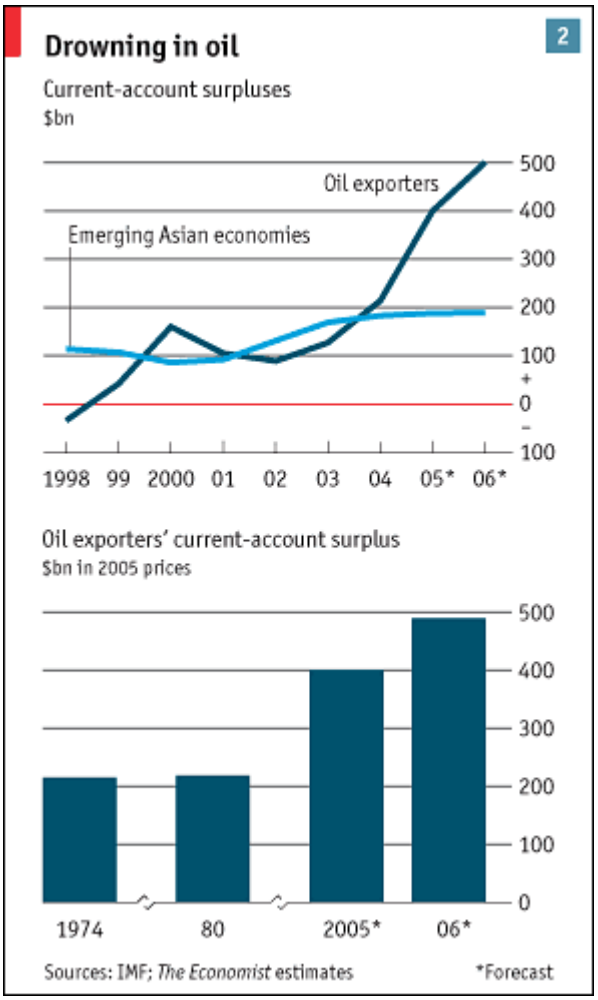
In Russia, the government has taken the sensible step of setting up an oil stabilisation fund, which will be used to reduce its large foreign debt. That said, the country has been more eager than members of OPEC to spend its extra money. Around two-thirds of the increase in Russia's export revenues since 2002 has gone on imports. Some analysts also suspect that the government may yet raid the stabilisation fund for a spending spree. The main concern, however, is that while the economy is flush with cash important structural reforms will be postponed.

In most of the Middle East, governments are being more cautious than usual with their extra revenue. Mohsin Khan, the director of the IMF's Middle East and Central Asia department, reckons that most governments in the region are budgeting on an oil price of only $30-40 a barrel for next year. He estimates that governments have on average spent only 30% of their extra oil revenue

since 2002, compared with 75% in the 1970s and early 1980s, after previous steep climbs in the oil price. Their average budget surplus has increased from 2% of GDP in 2002 to nearly 15% this year.

Lessons learned, perhaps too well

Oil-exporting governments seem to have taken to heart the lessons of the 1970s and 1980s. First: don't assume that oil prices will stay high for ever: in real terms, OPEC's annual average oil revenue in 1981-2000 was only one-third of that in 1980. Second, don't waste your windfall. In previous booms, oil-producing countries gaily spent their petrodollars on lavish construction projects that required imported equipment and skilled foreign workers, but did little to create local jobs or to diversify economies. In its recently published *Regional Economic Outlook* for the Middle East and Central Asia, the IMF advises governments to give priority to spending that will have a more lasting impact on growth and living standards.



In fact, believes Mr Khan, Middle East oil exporters have greater capacity to spend petrodollars at home than in the 1970s and 1980s, because their populations have been rising rapidly and because their infrastructure needs upgrading after many years of dwindling government revenues. High unemployment means that there is social pressure for more spending on education and health, and for schemes to encourage private-sector employment.

Saudi Arabia, with one of the world's fastest growing populations, has an unemployment rate of perhaps 20%. After nearly two decades of large budget deficits, the government's debt was 100% of GDP by 2000. Even this year, Saudi Arabia's oil revenues per head will be about 70% less in real terms than in 1980, owing in part to a near tripling of its population. It is using some of its extra money to repay debt, and the government has recently raised civil servants' pay by 15%—the first across-the-board increase in more than 20 years.

As well as spending more on health, education and infrastructure, the Middle East also needs to invest in oil production and refining capacity, to ease future supply shortages and so stabilise prices. The International Energy Agency gave warning this week that oil prices will keep rising over the next two decades unless the region's producers invest substantially more than they currently intend.

The IMF is also—unusually—encouraging these economies to be less thrifty. Increased spending will not only, through diversification, allow Middle East countries to support their future economic development, but by boosting imports from the rest of the world it will also allow a more orderly narrowing of global imbalances. This should help to cushion the world economy against the negative impact of rising oil prices.

So far most of the extra money is being saved, not spent, so where is it going? In the 1970s and early 1980s surplus petrodollars were largely deposited in banks in America or Europe. These banks then lent too many of them to oil-importing developing countries, sowing the seeds of Latin America's debt crisis. This time it is proving much harder to track the money, but much more seems to be going into foreign shares and bonds rather than into western banks. This may reflect a greater reluctance to hold deposits in foreign banks, because of the increase in official scrutiny after the terrorist attacks of September 11th 2001. Figures from the Bank for International Settlements (BIS) show that in 2002 and 2003 OPEC deposits with banks in the BIS reporting area actually fell. Since last year, they have increased, but only modestly. In contrast, Russian bank deposits abroad have risen much more sharply, as have the central bank's official reserves, from $73 billion at the end of 2003 to $161 billion this October.

Russian investment, whether in bank deposits, London property or football clubs, is relatively conspicuous. But even the experts at the IMF and the BIS are finding it hard to track Middle Eastern money, because a large chunk of the surplus is held not as official reserves, but as foreign investment by government oil stabilisation and investment funds and by national oil companies. Official reserves of Middle East oil exporters (including the total net foreign assets of the Saudi Arabia Monetary Agency) have risen by around $70 billion this year, accounting for less than 30% of their current-account surplus.

Follow the money

One puzzle is that, according to data published by America's Treasury Department, OPEC members' holdings of American government securities fell from $67 billion in January this year to $54 billion in August. But Middle East purchases of American securities are probably being channelled through London. Mr Khan reckons that although the bulk of OPEC's surplus revenues has so far gone into dollar-denominated assets, those assets are increasingly held outside the United States. A big chunk is also going into hedge funds and offshore financial institutions, which are unregulated and so impossible to track.

There has also been a flood of petrodollars into private equity abroad. In January, Dubai International Capital took a $1 billion stake in DaimlerChrysler. In March, it bought the Tussauds Group, a theme-park firm. This month, DP World, Dubai's state-owned ports operator, made a £3 billion ($5.2 billion) bid for P&O, Britain's biggest ports and ferries group.

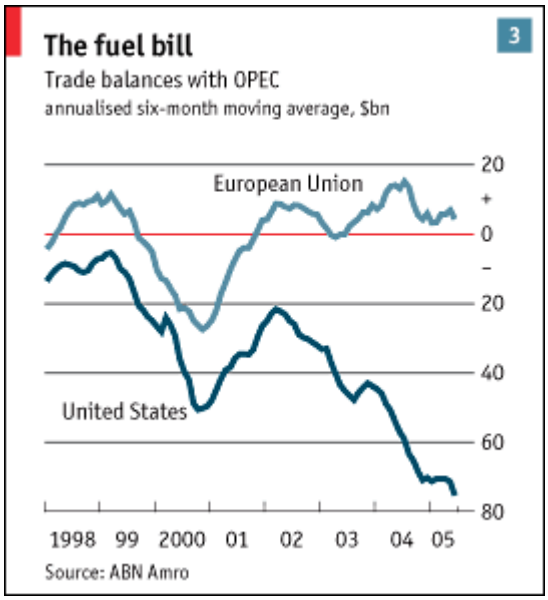
Many smaller private investors in the Middle East are keeping their money closer to home. In the 1970s and early 1980s equity markets barely existed in the Gulf. This time money has flooded into them. Share prices in Saudi Arabia have increased fourfold since 2003, and its bourse now has the largest capitalisation of any emerging stockmarket. The average price/earnings ratio in the region is over 40 and recent share offerings have been oversubscribed several hundred times. A spectacular property boom is under way in many places, notably Dubai, which has become a regional financial centre and leisure playground. The world's biggest shopping mall is being built there and Emirates, the state's airline, has virtually underwritten the launch of the Airbus A380, ordering no fewer than 45 of the super-jumbos, a third of the total (see article).

Despite the lack of hard data, many economists are sure that a big dollop of petrodollars is going into American Treasury securities. If so, the recycling of money via bond markets could have very different effects on the world economy from the bank-mediated recycling of previous oil booms. If petrodollars not spent flow into global bond markets, they reduce bond yields and thus support consumer spending in oil-importing countries.

Buy from Europe, lend to America

Indeed, this leads Stephen Jen, an economist at Morgan Stanley, to challenge the popular notion that Europe is being hurt less by higher oil prices than America. It is certainly true that Europe's exports to oil producers have risen faster than America's in recent years. Europe's share of OPEC's imports has climbed to 32%, compared with America's 8%. A recent report by ABN Amrofinds that while America's trade deficit with OPEC has grown markedly since 1999, the European Union's balance has barely changed (see chart 3).

On the other hand, around two-thirds of petrodollars are thought to have gone into dollar assets, pushing down American bond yields. In addition, America's economy is more sensitive to interest rates than that of the euro zone. Mr Jen therefore suggests that America may have gained more from lower interest rates than the euro area has from higher exports, especially because OPEC still buys less than 5% of the currency zone's exports. Although higher oil prices have increased America's current-account deficit, Mr Jen reckons that it probably runs a balance-of-payments surplus in oil, with capital inflows from exporting countries exceeding its net oil import bill.



How might the flow of oil money affect the dollar? Because oil is traded in dollars, rising prices initially increase the demand for greenbacks. But what happens next depends on whether oil producers buy dollar assets or swap their dollars for euros. Saudi Arabia, Kuwait, the UAE and most other Gulf states peg their currencies to the dollar, which might suggest that, like Asian central banks, they will continue to favour dollars. But unlike China's export surpluses, petrodollars are mostly not managed within official reserves, but by oil stabilisation funds and so forth. These are not subject to the same constraints as central banks to hold liquid assets and their aim is to maximise returns.

This means, says Mr Jen, that oil exporters' assets are more footloose than those of Asian central banks. So far, the bulk of petrodollars may have gone into relatively liquid dollar assets, helping to support the greenback this year. But this money could flit if the dollar starts to slide again. And

there is lots of it: for example, the Abu Dhabi Investment Authority, with assets of maybe $250 billion, is one of the wealthiest players in global financial markets. Russia's central bank has reduced the share of dollars in its foreign reserves over the past couple of years, but it is still around 65%. The central bank has said that it wishes to hold more euros.

That leaves the dollar dangerously vulnerable. But what about the exchange-rate policies of the oil exporters themselves? Most oil exporters peg their currencies to the dollar or resist appreciation through heavy intervention, in much the same way as China and other Asian countries have done. So should America and others demand that oil exporters revalue their currencies, as they have called on the Asians to do? In fact, revaluation of oil exporters' currencies would do little by itself to reduce America's deficit (nor, for that matter, would a dearer Chinese yuan). The correct solution to global imbalances is for America to save more and for surplus countries, including both the oil exporters and the Asians, to spend more.

The correct solution to global imbalances is for America to save more and for surplus countries, including both the oil exporters and the Asians, to spend more

Nevertheless, Brad Setser of Roubini Global Economics, a research firm, argues that oil economies should not peg their currencies to the dollar in any case. The currencies of commodity producers, he says, should follow commodity prices. Instead, Middle East oil exporters' currencies have tracked the dollar—mainly downwards—since 2002, even as oil revenues have soared. By raising the relative price of foreign goods, this has discouraged imports. Equally perversely, economies were hurt in the late 1990s when the dollar rose at the same time as oil prices sank.

By pegging their currencies to the dollar, these economies have in effect had to adopt America's monetary policy. With interest rates too low, excess domestic liquidity has stoked inflation and asset prices. The broad money supply of the Middle East oil exporters has grown by almost 24% in each of the past two years and the average inflation rate has risen to almost 9% this year. To curb inflation, Gulf economies need more flexible exchange rates and monetary policies.

Russia officially operates a “managed float” for its exchange rate. But the rouble's rate against the dollar has been held relatively steady over the past couple of years by heavy intervention. Consequent excess liquidity and a boom in domestic consumption have pushed inflation to 12%.

It does not make sense for a country with a large current-account surplus to tie its currency to that of a country with a large deficit—such as America. A fully floating exchange rate may not be desirable, because it may be too volatile, but more flexibility could help oil exporters to adjust better to fluctuations in commodity prices.

If oil prices remain high, so will oil exporters' surpluses. The IMF forecasts an average annual current-account surplus of $470 billion over the next five years (assuming an average oil price of $59 a barrel). The oil exporters will have to play a role in helping to reduce global imbalances. Importing more and letting their currencies rise, as well as increasing government spending and liberalising their economies, would be steps in the right direction.

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World trade

Stuck with the second best

Nov 10th 2005
From The Economist print edition

It has been a bad week for free trade

Reuters

Same old patterns of trade

Get article background

EARLY on November 8th, Rob Portman, America's top trade negotiator, and Bo Xilai, his Chinese counterpart, got stuck in the lift of a London hotel. They eventually emerged to announce a deal on America's imports of Chinese textiles, which in effect reinstates quotas until 2008. A day later, free trade was jammed elsewhere. Mr Portman and other top trade ministers began to admit publicly that next month's ministerial meeting in Hong Kong was unlikely to produce a big breakthrough in the Doha round of global trade talks.

The textile deal, reached after three months of talks, allows America to reimpose quotas on 34 products, from trousers to towels, which together cover about 46% of all textile imports from China. To some extent, it simply formalises an ugly reality. Under the terms of China's accession to the World Trade Organisation (WTO), America may set “safeguard” quotas for textiles, and has

already done so for 19 products. But such quotas must be renewed annually, creating annoying uncertainty for producers and importers.

The new deal offers greater predictability and America has promised to “exercise restraint” about using safeguards in future. Both sides tried hard to avoid the farce that followed a similar agreement between the European Union and China earlier this year, in which boatloads of bras piled up at Europe's ports. The Sino-American agreement makes room for Chinese textiles already in American docks (though socks may be an exception).

Even if predictable quotas are less bad than erratic ones, both are bad nonetheless. The deal is a cave-in to America's ever-protectionist textile industry. Mr Bo caustically pointed to an old Chinese saying that the “crying baby gets the milk first”. American textile producers were predictably jubilant, but their glee may not last long. Production will shift to other foreign countries, not return to the Carolinas. Chinese producers will favour quality over quantity, which will hurt the remaining American producers more.

For both sides, however, the agreement was about more than textiles. George Bush is due to visit Beijing this month. The Americans will now hope that he can shift discussion to trade quarrels where they are on stronger ground—such as China's failure to enforce intellectual-property rights. China wanted to show that it sticks by the agreements it has signed in the WTO.

That sentiment seems sadly absent from the WTO negotiations themselves. Although all countries signed up for an “ambitious” trade round that would provide “significant market access”, especially in agriculture, that goal looks increasingly elusive. Thanks mainly to the EU's completely unambitious approach to farm tariffs, the prospects for the Doha round are darkening. Many of the hardest decisions look set to be put off until after the Hong Kong meeting. Celso Amorim, Brazil's foreign minister, has talked of needing a “Hong Kong II” in future. Negotiators who recently were proclaiming the necessity of a breakthrough in Hong Kong now claim that there is plenty of time to strike deals in 2006. If this week's US-Chinese disappointing stitch-up is any guide, let's hope the lifts in Hong Kong keep working.

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Lord Alexander

A man to trust

Nov 10th 2005
From The Economist print edition

Our thanks to Bob Alexander, who died on November 6th, aged 69

OF ALL the roles that Robert Alexander, since 1988 Lord Alexander of Weedon, performed during his long professional life—barrister; chairman variously of the Bar Council, the Takeover Panel, National Westminster Bank, the Justice law-reform charity and the Royal Shakespeare Company; president of the Marylebone Cricket Club—the one that in the selfish eyes of *The Economist* will always be the most notable earned him neither pay nor public profile. This was his 15 years (from 1990 until this past summer, when illness prompted his retirement) as one of this newspaper's four trustees.

The Economist trust, which was set up in 1929, is, as Lord Alexander was wont to put it, a reserve power. Its purpose is to protect the newspaper's editorial and commercial independence, by exercising two rights: to approve or reject all proposed changes of editor; and to approve or reject transfers of shares. Fortunately, that independence was never challenged during Lord Alexander's time as a trustee. Nevertheless, as befitted one of the leading legal minds of his generation, he was forever probing into the trust's legal basis, ensuring that the trustees were well prepared in case a challenge should occur.

Trustees have generally been members of the British establishment; the longest-serving have been Sir William Beveridge, the man who in 1942 laid the foundations of the post-war welfare state (39 years), and Sir Oliver Franks, a former diplomat who in 1982 led the public inquiry into the Falklands war (41 years). Lord Alexander, like those two before him, was the sort of man who epitomised the best side of this country's establishment: well connected and schooled, unabrasive, scrupulously fair, yet eager to speak out on issues that concerned him, such as civil liberties, human rights and, latterly, the legality of the Iraq war. Set against those, the freedom of *The Economist*'s editor may seem a minor matter. But we are very grateful.

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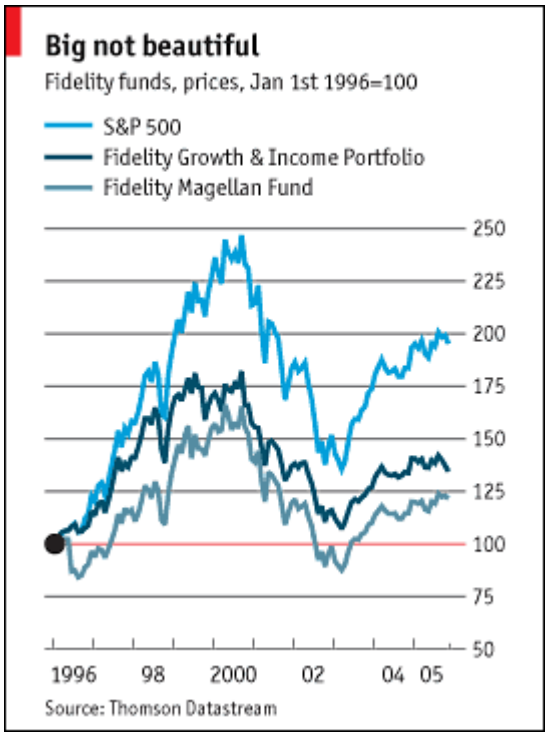
Mutual funds

Faithfully following Fidelity

Nov 10th 2005 | NEW YORK
From The Economist print edition

A giant American fund manager finds that these days it's hard to be big

A DECADE ago, having survived the hardest apprenticeship in the investment business, Bob Stansky and Steve Kaye were rewarded with the management of Fidelity's Magellan and Growth & Income funds, two of the largest pots of money at America's biggest fund-management company. On October 31st, both were replaced, after failing to produce satisfactory returns in recent years.



Whether this will boost the performance of their former funds will interest not only Fidelity but all companies that try to manage a lot of money actively—not to mention their investors. There are many possible reasons why Messrs Stansky and Kaye lost their sparkle, but it is difficult—nearly impossible, perhaps—to tell whether fund managers' performances should be ascribed to talent or chance. It seems clear that neither picked stocks brilliantly. And at least some of the blame ought to be placed on the strategy, used by both, to bet on stocks with large market capitalisations. Given the size of their funds, this was a perfectly reasonable plan. Sadly for them, such stocks have been in a long slump.

A more worrying thought for big asset-management firms is that Fidelity could be suffering from “information leakage”—the inability to capture all the profits from investment ideas because others track or even anticipate its trades. For years Fidelity's size has meant that its positions are carefully followed by others. The giant asset-management company's routine filings disclosing holdings are scrutinised; so are caps it might put on its total holdings. Much to Fidelity's irritation, the *Wall Street Journal* noted that after Mr Stansky's resignation, the prices of stocks in the $7 billion Fidelity Capital Appreciation fund run by his successor, Harry Lange, spiked. Investors seemed to be betting that he might buy more of his favourite shares for the $53 billion Magellan fund.

The activities of human Fidelity-watchers may now matter less than the ability of some hedge funds to develop software that can pick up whether shares changed hands at bid or asked prices, and to draw inferences for future demand. The role of Wall Street firms is also worth thinking about. Their commissions on trades have fallen to almost nothing, and complaints about Fidelity's tight-fistedness on commissions are common. Yet it is hard to find a firm that rejects Fidelity's trades. One reason is that they all want to see its orders, to help position their own dealings. Might this even help Fidelity get a cheap price for its transactions?

Fidelity points out that it has large funds that have performed well, besides those that have done poorly, and that the returns on its smaller funds have been similarly mixed. It could be, therefore, that its overall performance has simply been lacklustre, and that size has had nothing to do with it. Fidelity has made some changes to trading operations in order to bolster returns. Communication between traders and fund managers is supposed to go beyond the placing and taking of orders. Efforts are under way to invigorate research by hiring some experienced analysts.

Maybe this will be enough. Size, at first blush, has not hindered Capital Research and Management's hugely successful American Funds, which are currently top sellers. That said, the funds are not quite as big as they look, because in practice they are split into pieces, each with its own manager and analysts. And there are signs that even American Funds may be hitting a wall. The global fund has a wonderful track record, but results have dipped recently. Some outsiders blame its size. In New York, at least one top investment bank has changed how it runs a proprietary fund to avoid sending out obvious signals about what it buys and sells. The era of big, truly transparent, managed public funds may be ending.

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European bank mergers

Never did run smooth

Nov 10th 2005 | FRANKFURT
From The Economist print edition

Official barriers are not the only hazards for cross-border deals

Get article background

EVEN by the standards of the European Commission, “sub-optimal market functioning” is not a pretty phrase. Its meaning, though, is plain. In a letter to European finance ministers this week, Charlie McCreevy, the commissioner for the internal market, wrote that since 1999 only a fifth of financial mergers, by deal size, have involved firms from different countries, compared with nearly half of non-financial deals. This suggests that markets are not working as well as they should, as he almost put it, and that official barriers to cross-border financial marriages should be reduced.

Official blessing cannot, however, guarantee a frictionless courtship. Just look at recent developments in Europe's biggest cross-border banking deal, between Italy's UniCredit and Germany's HVB. Last week HVB's Stefan Jentzsch, earmarked to head investment banking for the merged group, suddenly resigned. So did Christine Licci, former head of Citigroup's retail bank in Germany. Morale at HVB can surely only improve.

This is embarrassing for Alessandro Profumo, head of UniCredit. At least he has had experience of similar difficulties before, when he merged an Italian commercial bank and a savings-bank group in 1998 to create UniCredit. The new institution has since become one of Europe's most successful banks.

However, the deal with HVB is possibly the most complex cross-border bank merger yet. Moreover, both Italy and Germany are heavily unionised. Union representatives on HVB's supervisory board have been sniping since the deal was conceived. Mr Profumo is still negotiating with veto-wielding shareholders at Bank Austria, HVB's 75%-owned subsidiary in Vienna, and with competition authorities in Poland, where UniCredit's Bank Pekao and HVB's BPH together command 17% of banking assets.

One of these problems should ease after November 18th, when UniCredit is due officially to take ownership of HVB shares and the resistance of the dissidents on the German bank's supervisory board will come to an end. Meanwhile Mr Profumo and his colleagues are urgently seeking a replacement for Mr Jentzsch.

Mr Jentzsch, a partner at Goldman Sachs before he joined HVB in 2001, may be on his way to Dresdner Bank, a German rival, to head a new corporate and investment-banking division. Allianz, a big insurer, bought Dresdner in 2001 but dithered about what to do with Dresdner Kleinwort Wasserstein (DrKW), its investment-banking arm. Only two months ago did Michael Diekmann, Allianz's boss, make it clear that DrKW was not for sale. Now it is being integrated with Dresdner's corporate-banking operation. Andrew Pisker, a Briton who runs the investment bank, would like to head the new division, but Mr Jentzsch, as a German, may go down better with the corporate

bankers. Mr Jentzsch may also be better placed to manage relations between Allianz, whose head office is in Munich, Dresdner, based in Frankfurt, and DrKW, in London. There are some territorial barriers that only good management, not commissioners in Brussels, can overcome.

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Parmalat and its bankers

Mr Bondi's victory

Nov 10th 2005 | PARMA
From The Economist print edition

The election of Parmalat's new boss

ENRICO BONDI looked tired, but happy, on November 8th at the end of a four-hour meeting of shareholders of Parmalat, the Italian dairy group he has nursed back to health over the past two years. Mr Bondi and a ten-strong team were elected as chief executive and board of a company that was nearly sunk by Europe's biggest corporate scandal. They won 98% of the vote. But it was a much closer call than it appears from that number.

Some of Parmalat's former financiers waited until the last moment to decide whether to cast their votes. They were reluctant to support Mr Bondi because he is suing them for billions of euros, alleging connivance and sloppy lending to the old Parmalat. Yet opposing him might have further damaged their reputations. It could also have cost them as shareholders: ironically, as part of Parmalat's recovery, bank creditors swapped debt for equity.

Together, the banks could have beaten Mr Bondi. But that looked unlikely once Banca Intesa, Italy's biggest bank, let it be known late last week that it would not attend the meeting. SanPaolo IMI, the third-biggest, did the same. Much depended on what Capitalia, the fourth-biggest bank and Parmalat's biggest Italian shareholder, with 5.5%, would do.

At the meeting, it seemed clear that Mr Bondi's supporters, led by America's Lehman Brothers, would win. But at the crucial moment those creditor-shareholders who were inside the auditorium left to join others who had remained outside. Abstaining would have looked like an effort to defeat Mr Bondi because, bizarrely, under Italian law abstentions count as noes. By leaving, the banks de-registered their shares.

The banks say they came to Parma for informational purposes and to show their “non-hostility” to Mr Bondi. They also claim they had to attend in order to guarantee a quorum. No need, in fact: Mr Bondi could have been elected with far less than the 16.9% of shares whose owners voted.

For Mr Bondi, more hard work lies ahead. In addition to legal battles, he wants to strengthen the company, preferably by acquisition. Some banks may try to settle, as Morgan Stanley and Nextra, Banca Intesa's fund-management arm, already have. Only Deutsche Bank has made itself more popular with the new boss (by voting for him). Others may wish they had followed UniCredit, Italy's second-biggest bank, and sold their shares straight after Parmalat's re-listing last month.

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Yachting insurance

For those in peril on the sea

Nov 10th 2005 | PLYMOUTH
From The Economist print edition

The business of insuring racing yachts and those who sail them

Getty Images

Caffari against the elements

RESCUES from several capsized yachts in the storm-tossed north Atlantic this week showed the hazards of long-distance ocean racing. The risks are unlikely to deter those aboard the seven 79-foot (24-metre) carbon-fibre yachts due to leave Spain on November 12th at the start of the Volvo Ocean Race, a nine-leg, round-the-world event considered to be the toughest crewed race of the year.

Arguably braver still is Dee Caffari, who has been training off Plymouth for a solo circumnavigation. On November 20th Ms Caffari is due to set sail in the 72-foot, steel-hulled *Aviva*. Unlike the Volvo fleet, she will be heading east-to-west, against winds of up to 100 mph (160 kph) and waves of up to 40 feet, and expects to be at sea for up to 170 days. Only four people, all men, have completed the feat before.

This sort of sailing sounds like an insurers' nightmare. Cover for yachts making such voyages is unsurprisingly hard to find outside a few syndicates at Lloyd's of London. Even these are cautious, often balking at search-and-rescue costs, for example. The policies are highly specialised: “You've unbalanced your whole portfolio because you're doing something really hazardous,” says David Bruce of Hiscox, a syndicate that has insured long-distance sailors, polar explorers and other adventurers.

Apart from the liability insurance required by race organisers, boat owners usually take excess cover for their hulls, with newer, lighter boats requiring higher premiums. “The designers want to make them light and fast,” says Wesley Absolom, a yachting insurance expert at Underwriting Risk Services, part of another Lloyd's syndicate. “But because they're new, we don't know where the

Economics focus

Discord over harmony

Nov 10th 2005
From The Economist print edition

One market, one profit, 25 taxmen

MOST students of taxation know the advice that Jean-Baptiste Colbert, treasurer to Louis XIV, offered the beleaguered taxman: pluck the goose so as to get the most feathers with the least hissing. But suppose the goose is housed on one farm, eats the birdseed scattered in a second, and lays its eggs in a third. Which farmer gets the plumage?

The European Union has a single market, but 25 tax authorities, each with its own interpretation of Colbert's dictum. Multinational companies, which hop from one jurisdiction to another, expose this muddle in its worst light. The companies bemoan the burden of complying with 25 different tax codes, and argue that their profits and losses transcend national boundaries anyway. Some governments complain that the taxes a corporation pays bear little relation to the publicly provided benefits (a sound legal system, an educated workforce, passable roads) it enjoys. And the European Commission worries that competing tax codes impede the single market, keeping Europe's companies penned in behind national boundaries, deprived of continental economies of scale.

Last month, the commission said it would redouble its efforts to harmonise the corporate tax base, but not corporate tax rates. Member states will remain free to take as many feathers as they see fit, but the EU should agree collectively who gets to pluck what. Companies would calculate a single, EU-wide profit, according to one rulebook. This taxable profit would then be divvied up among governments, according to the company's weight in each member state.

The commission does not speak with one voice, however. Last week Charlie McCreevy, the commissioner for the internal market, worried about any measure that might bring about harmonisation of tax rates “through the back door”. “The issue of tax rates”, he insisted, “cannot be separated from the tax base.”

Mr McCreevy is right in one sense. Tax rates and the tax base are linked: when rates rise, the base tends to shrink. Companies decide to make their profits elsewhere, or, more insidiously, to report them elsewhere. Under the EU's current tax regimes, the foreign subsidiary of a multinational corporation must pretend to be a stand-alone company. It must account for everything its parent gives it—parts, money, expertise—as if it were bought and sold at arm's length on the market. But the implicit “transfer prices” between different bits of a company are arbitrary and manipulable. A 2002 study by Trade Research Institute, a Miami consultancy, found American firms buying plastic buckets for $973 each and tweezers for $4,896. By overpaying or overcharging its foreign affiliates, a company can spirit losses and profits from one part of the world to another.

Expensive tweezers aside, it is not always easy to distinguish such sleights of accounting from

genuine shifts in activity. In a 2003 paper*, Eric Bartelsman, of the Free University of Amsterdam, and Roel Beetsma, of the University of Amsterdam, found a novel way to do just that. They took advantage of OECD numbers on the value added by particular industries around the world and their payrolls. A company that truly departs a high-tax nation will not only report lower value-added in that country, but will also maintain a smaller scale of operations. Lower value-added should be accompanied by a lower wage bill.

Examining 16 OECD countries over two decades, the two economists found that value-added would fall in response to a tax hike, but the payroll would not, at least not to the same extent. In other words, the reported profits of companies fled, even as their operations stayed put.

Based on these numbers the two authors carried out a “back-of-the-envelope” calculation of how easily profits can be shifted on paper. If a government were to raise its corporate tax rate by one percentage point (from 37.5%, the G7 average at the start of the 1990s), more than 70% of its hoped-for revenues would fail to materialise, as reported profits disappeared overseas. This is not because the higher tax rate chokes off economic activity—Messrs Bartelsman and Beetsma hold “activity”, as proxied by the payroll, constant. It is because the profits generated by that unchanged workforce are reported elsewhere.

The discipline of deception

If the commission gets its way, these accounting tricks will be much harder to pull off. Corporations would prepare a single set of figures with one, EU-wide bottom line. Thus, it would not matter which subsidiaries book a profit and which a loss. The commission claims enthusiastically that the knotty problem of transfer pricing will be solved “at a stroke”.

But the Irish government fears (and some other member states hope) that harmonisation will also solve the “problem” of tax competition. Are they right? Governments could still vie with each other to attract a greater share of a harmonised tax base. A company's EU-wide profit would be divided among jurisdictions, according to some rough measure of the firm's activities in each country, such as its sales or payrolls. By setting a low tax rate, the Irish government could tempt a company to expand its sales in the emerald isle, so that a bigger fraction of the firm's EU profits fell under Ireland's purview.

But it is easier to reshuffle a firm's profits on paper than it is to restructure a firm's activities in reality. If the commission's plans were ever implemented, each member's corporate tax base would probably exhibit more inertia than it does today. The modern, mobile company is never a sitting goose for national taxmen. But if tax bases were harmonised, companies might be a little less sensitive to overzealous plucking.

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* “Why pay more? Corporate tax avoidance through transfer pricing in OECD countries”. *Journal of Public Economics*, 2003.

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Science policy

Seeking scientific autonomy

Nov 10th 2005
From The Economist print edition

A European Research Council must promote genuine competition

HISTORICALLY, the European Union has not bothered with funding much basic scientific research. Such activities have mainly remained the preserve of national governments, not least because giving scientists free rein can lead to discoveries that not only make money but ultimately enhance military might.

That attitude is now changing. The European Commission proposes to establish a European Research Council (ERC) that would spend a maximum of €12 billion ($14 billion) over seven years on “blue skies” research. While the plans are being generally welcomed by Europe's member states, their details are problematic.

The proposed ERC is intended to make Europe more competitive. Europe has some first-class universities, scientific institutions and research organisations. But, the ERC's proponents argue, their activities are fragmented, so they are not reaching their full potential.

In America, teams from across the country compete with each other for grants from the National Science Foundation. The proposed ERC is modelled on this scheme. It would award grants to individual research teams for a specific project, solely on the basis of scientific merit judged by peer review. If the ERC were created, scientists from across Europe would compete with each other for funds, rather than merely competing with their fellow countrymen, as happens at present.

This compares with the limited funding for basic research that currently exists in the EU, which places its emphasis on collaboration between researchers. It is open only to researchers in a narrow range of disciplines chosen by the European Parliament and the commission. The ERC would be quite different, placing its emphasis on competition between researchers and leaving scientists themselves to decide which areas of science to pursue. Helga Nowotny, who chairs the European Research Advisory Board—an advisory body to the commission—says that winning a grant from the ERC could come to be seen as unmistakable recognition of research excellence.

The quality of European research could do with being stepped up a notch. Between 1980 and 2003, Europe had 68 Nobel laureates in medicine, physics and chemistry compared with 154 in America. With competition from China and India, Europe's share could fall further.

One of the reasons for Europe's relatively weak performance is thought to be a lack of genuine competition between Europe's researchers. Another is its poor ability to attract young people into a research career. Recent estimates suggest that Europe needs an extra 700,000 researchers if it is to meet its overall target of raising spending (private, national and EU) on research and development to 3% of GDP by 2010. Many young scientists leave Europe for America once they have finished their training. Dr Nowotny says the ERC could help here too. It could establish a scheme to give young researchers the opportunity to follow their own ideas and become independent at an earlier stage in their careers, encouraging talent to stay in Europe.

Scientists or policymakers?

The crucial issue now is whether the ERC will be able to set its own research agenda, free from the interference and bureaucracy of the commission and influence of member states. Last month, 22 leading European scientists charged with shaping the ERC's scientific strategy (Dr Nowotny is one of them) met for the first time to start hammering out a charter and constitution. Serious concerns remain over the legal structure of the body.

Rüdiger Hesse of the Max Planck Institute in Germany argues that the world's most successful research institutes—those with the most Nobel prizes to their names—are run by scientists and not policymakers. He has much support. Many scientists are wary of the commission's suggestion to set up the ERC as an executive agency—a legal body ultimately answerable to the commission. They argue it could result in the commission ignoring advice from its panel of 22 scientists and using political criteria to determine which areas of science should take priority. They have sought, and received, assurances from the commission that it will not interfere in this way.

Others back the alternative option of establishing the ERC as a legal entity entirely separate from the commission. The main scientific organisations representing researchers in Britain, France, Germany, Poland and Spain have all expressed support for this model. The idea has also found favour with some members of the European Parliament and some member-state governments—but for somewhat different reasons.

Achilleas Mitsos, director-general of the commission's research division, says some countries—he wouldn't say which—would like the ERC to be set up under a structure that ensures its budget is distributed according to quotas for each member state. Mr Mitsos says these nations favour establishing the ERC as separate from the commission because the resulting independent body would be vulnerable to the principle of *juste retour*. In other words, countries would get back in the form of research grants a proportion of their overall contribution to the total budget and to hell with scientific merit.

The final decision on the ERC's legal form, on a date yet unspecified, rests with the European Parliament and member states in the European Council. If both are genuine in their support for

the ERC and Europe's aim of becoming more competitive, then they must find a way of keeping the ERC free from political interference. Europe would benefit from a competition for its best researchers which rewards scientific excellence. A quasi-competition that recognises how many votes each member state is allotted would be pointless.

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Planetary science

Worlds apart

Nov 10th 2005
From The Economist print edition

European researchers have launched a probe to explore Venus

ESA

Dramatically different

NAMED after the Roman goddess of love, Venus could have been a sister planet to Earth. The two orbs are almost identical in shape, volume and mass. Both have solid surfaces, an atmosphere and a weather system. Even their distances from the sun are not so different: Venus is about 108m kilometres (67m miles) from the centre of the solar system while the Earth is about 150m kilometres out.

Yet Venus is far from lovely. Probes sent to the planet by America and the Soviet Union from the 1960s to the 1980s revealed that Venus would be deadly to humans. The atmosphere is mostly noxious carbon dioxide, the pressure at the planet's surface is equivalent to being almost a kilometre under water and the temperature is a roasting 465 °C.

On November 9th, the European Space Agency launched its bid to discover why the two planets are so different. The spacecraft *Venus Express* aims to arrive at the target world in April 2006, and is expected to orbit the planet for 500 Earth days, equivalent to just two Venusian days, while carrying enough fuel to double the duration of the mission.

Planetary scientists want to know whether Venus is geologically active. On Earth, the continents lie on tectonic plates that move relative to each other, creating mountains and deep sea shelves. Volcanoes erupt at pressure points at their edges. Venus, however, seems to be covered by a single plate. Paradoxically, its surface appears to be shaped by the deformation of the crust and by volcanic activity. Lava flows extend for hundreds of kilometres across its surface.

Both planets are pockmarked by craters caused by meteorites. However, the oldest craters on Venus appear to have been made less than 500m years ago. Scientists suspect that the planet

might periodically undergo some global eruption that completely resurfaces the planet. If this were so, it is possible that, instead of Venus experiencing regular volcanic eruptions that release the pressure within the planet, it has no geological activity between its catastrophic outbreaks.

Seven instruments aboard *Venus Express* will attempt to solve the mystery. They will analyse the planet's lower atmosphere, looking for telltale gases associated with volcanic activity, and for related temperature changes. The spacecraft is also equipped to detect the Venusian equivalent of earthquakes.

Venus has various other odd aspects that will also be examined in more detail. High in its atmosphere, the winds race at hurricane pace, creating enormous vortices at the poles. The planet has no internal magnetic field, which might be due to its core failing to circulate in the way the Earth's does. As a result, it is bombarded by the solar wind and this might have resulted in the loss of water and oxygen. Venus's weather system involves sulphur, carbon monoxide and water vapour. The uppermost parts of its thick cloud layer mysteriously absorb half of the ultraviolet light received by the planet. Visible flashes in its atmosphere have been detected on Earth. Could these be lightning? *Venus Express* will take a closer look.

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Bird flu

Dealing at source

Nov 10th 2005 | GENEVA
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A meeting to discuss the global response to bird flu demands funds

Reuters

Disinfecting

IN RECENT weeks, the world's public health officials have been afflicted with a flurry of meetings about bird flu. This burst of activity culminated, this week, in a gathering at the headquarters of the World Health Organisation in Geneva. Plans were hatched for how best to respond to the threat from a virus that is infecting poultry around the world and might trigger a deadly pandemic of human flu.

The meeting revealed a broad consensus that the best short-term strategy is to tackle and eliminate the animal disease. Countries such as Japan and Malaysia reacted quickly to eliminate outbreaks of bird flu and are now free from the virus. However, poor countries in Asia, such as Vietnam, Cambodia, Thailand and Laos, lack the veterinary facilities for surveillance of the disease in animals, the laboratories to test samples and the ability to respond swiftly to eradicate

outbreaks. As the needs of global health require these, it is increasingly clear that the world's richer nations are going to have to pay for what was described at the meeting as a “global public good”.

The World Bank announced that it would make $500m available to countries struggling to contain the outbreak in South-East Asia. Overall, it believes that $1 billion will be needed to tackle the crisis. In the short term, the big United Nations agencies estimate that they need about $80m to respond—$60m for the Food and Agriculture Organisation (FAO) and $20m for the World Health Organisation. The FAO and the World Organisation for Animal Health have for some time had an unfunded plan to control avian influenza. Earlier this year, the agencies were asking for just over $100m, by October the figure was $175m and, on November 9th, it rose again to $500m.

Although for now the disease is mainly a threat to poultry rather than people, the Geneva meeting highlighted concern about the supply of anti-viral drugs and vaccines for a human pandemic. Many Asian countries are alarmed by reports that richer nations are stockpiling anti-viral drugs while they have none. On November 2nd, America revealed that it would spend $7.1 billion preparing the country for a pandemic of influenza; much of this money will be spent on buying drugs. Just $250m will be available for international assistance.

Such a wide disparity between domestic spending and foreign aid is commonplace. Rich nations are obliged to prepare at home in case the stamping out of bird flu at source fails. The costs, however, of responding at home would be far higher than of eliminating outbreaks at source. It would be in the rich countries' interests to help those poorer countries that are willing to be helped.

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Language

Looking for a sign

Nov 10th 2005
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People can communicate without agreeing on the meaning of the terms

THE birth of a new language is such a rare event that scientists who want to watch it happen generally have to make do with computer simulations. Bruno Galantucci, a cognitive scientist at Yale University in America, has developed a human alternative, based on the principle that necessity is the mother of invention. He asks pairs of strangers to play a computer game in which they have to find one another in a virtual bungalow. This requires them to communicate, but the only way they can do so is by inventing a language. The game is revealing some of the secrets of successful communication.

The two players cannot see or hear each other, but they are seated at interconnected computers. In the simplest version of the game, each player is located in one of four rooms and must find each other in one move each. These rooms are arranged in a square, and each pair of adjacent rooms is connected by a doorway. On the floor of each room is an icon—a circle, a hexagon, a flower—and, prior to the game starting, the players have a short time to explore their surroundings. (Sometimes, a player with good spatial awareness can move quickly through all four rooms and understand the layout but others do not grasp it at this stage.)

The players know there is another player in another of the rooms, and that they must both end up in the same room, but they can only ever see the room they are in. To help them guide each other to a rendezvous, they have a device on which they can scrawl symbols that appear on the other's screen. But the device works like a roll of paper that constantly scrolls downwards, preventing them from writing letters, numbers or any other commonly recognisable symbol.

The first thing Dr Galantucci discovered was how quickly reliable symbolic systems emerged. Nine out of ten pairs solved the game in three hours, having agreed on a set of three or four symbols. In a more advanced version of the game, one pair developed 16 symbols in six hours.

The languages were also very different. Dr Galantucci had expected that the pairs would build their language on elements of the icons that appear on the floors of the rooms. A few did so, but they extracted different features of the icons—the number of vertices, say, or some linear abstraction of its shape. Others adopted a numbering system for the rooms—such as one slanting line for the first room and two for the second, moving clockwise or anticlockwise through the four rooms. Another technique involved labelling the rooms by their relative position in space, by placing marks on different parts of the screen.

Some pairs solved the game in minutes, others struggled for hours and there were a few pairs who never found each other. In those cases, Dr Galantucci often saw the ideographic equivalent of a person shouting loudly in a foreign country where he does not speak the local language. Since his volunteers included Yale University post-doctoral students, he infers that building a language is no trivial task. But then what are the ingredients of successful communication?

Having observed winning pairs at play, Dr Galantucci says that communication is established as soon as one player decides to copy the symbols proposed by his co-player, rather than impose his own. At that point the pair's chances of finding each other jump. As soon as there is imitation, he says, there is a common currency. After that, it is relatively easy to attach useful information to those symbols.

Dr Galantucci is now developing the game to make it increasingly complicated by adding on extra rooms. He is also working with trios, and hopes eventually to build up to small groups—more closely mimicking the conditions in which human language evolved.

Giacomo Rizzolatti, a neuroscientist at the University of Parma in Italy who studies the origins of language, says the game is interesting because it shows the importance of imitation in language development. But he points out that the symbolic systems adopted—numerical ones, for instance—are sophisticated abstractions that would have been beyond the minds that produced the first proto-language.

One strength of Dr Galantucci's experiment that does not exist in the real world, however, is that he is able to interview his subjects afterwards. What is striking, he says, is that a pair can be successful even if a symbol represents something quite different in the virtual world to each player—as long as they agree on what they should do when confronted by it. In other words, people only need to convey a small amount of information to communicate effectively, and they can do so while holding fundamentally different ideas about how their language describes the world.

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Economic growth

Why the rich must get richer

Nov 10th 2005
From The Economist print edition

Do industrial countries care too much about growth? No, they ought to care more

The Moral Consequences of Economic Growth
By Benjamin M. Friedman

Knopf; 592 pages; $35

Buy it at
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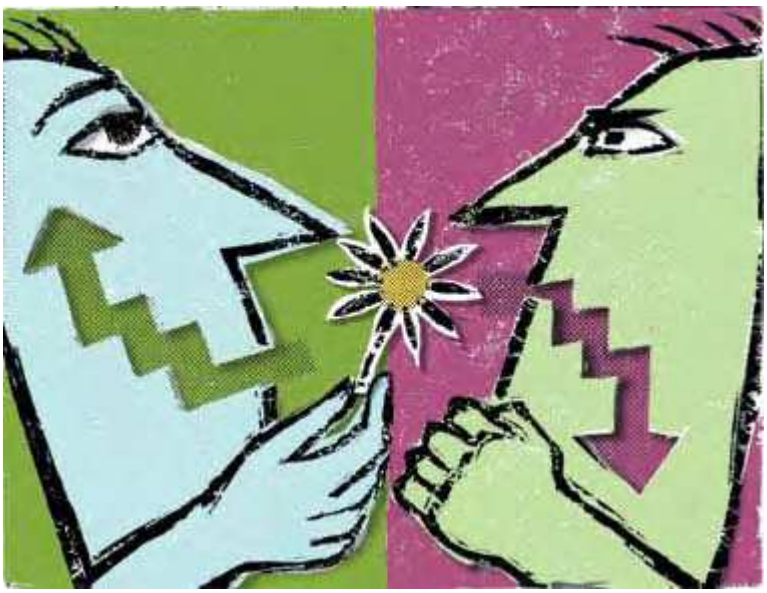

DEBATES about economic growth usually turn on the tension between material benefits and moral drawbacks. Rising living standards are fine in themselves, but the endless quest for them tends to

be morally compromising—or so goes a commonly expressed point of view.

Anti-globalists and other critics of capitalism press the point hardest, but even proponents of growth often cast the issue this way. Growth is worth having, especially in the developing countries, where poverty kills people, but in the rich world, the case is less clear. After a certain point, the pursuit of more wealth may be futile and morally enervating, especially if it burdens other people and future generations. There is more to life, liberty and the pursuit of happiness than a faster car and an iPod nano.

Benjamin Friedman, a professor of economics at Harvard University, would doubtless agree with much of this—but not with the recurring contrast that is drawn between material benefits and moral costs. “The Moral Consequences of Economic Growth” is a thorough, historically detailed, accessible exploration of an argument that was made (as Mr Friedman points out) by Adam Smith in the 18th century, and subsequently neglected. A society experiencing economic growth is likely to be happier and more successful than another that is not, even if the no-growth society has achieved a higher (but stagnant) standard of living. In Smith's words, it is “in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the great body of the people seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state.”

Mr Friedman argues that conventional thinking about economic growth is too narrow: it neglects its moral and political benefits. “The value of a rising standard of living lies not just in the concrete improvements it brings to how individuals live but in how it shapes the social, political and ultimately the moral character of a people.” Growing prosperity, history suggests, makes people more tolerant, more willing to settle disputes peacefully, more inclined to favour democracy. Stagnation and economic decline are associated with intolerance, ethnic strife and dictatorship.

It is not obvious that this should be true, so why has this tended in practice to happen? Mr Friedman's explanation is that people's sense of well-being is essentially relative. They become accustomed to any fixed standard of living, rich or poor. They are happiest if they feel their standard of living is rising (something that, in principle, all members of a society can experience at once), or if they feel that they are better off than their peers (which is divisive and not an aspiration that everyone can realise at once).

The key thing is the way these two standards of comparison—the potentially harmonious and the socially self-defeating—interact. If people are becoming better off relative to their own past standard of living, they will care less about where they stand in relation to others. If they are not growing better off relative to their own past standard of living, they will care more about their placing in relation to others—and the result is frustration, intolerance and social friction. Growth, in short, has moral as well as material benefits.

This, as the author notes, has an intriguing implication. Throughout the book, Mr Friedman gives due emphasis to the role of economic externalities, such as pollution. He also emphasises that economic policy needs to take account of these if growth is to provide the maximum social and economic benefit.

But if he is right about the moral benefits of economic growth, then growth itself involves an externality—not a negative one, like pollution, but a positive one. The material benefits of growth, chiefly in the form of extra goods and services, are priced in the market; the social and political spin-off is not. Left to their own devices, market forces will therefore provide too little growth. Adam Smith does not have it all his own way. In principle, the analysis favours a range of pro-growth interventions.

The book brings together an absorbing and unusual mixture of material. It ranges over economic principles; empirical material to support those arguments; the history of ideas (the notion that economic growth is morally tainted is far from new); historical accounts of growth and political change in America and Europe; and discussion of ethics and economic development, with particular reference to equality and the environment.

A concluding chapter looks at policies to promote growth in the United States. Much of what Mr Friedman has to say on this accords with mainstream thinking, but it no doubt bears repeating. He underlines the need to curb the fiscal deficit in order to encourage private capital formation, and discusses at length how to do this. He argues that limits on public spending and the reversal of some of the Bush administration's tax cuts will both be needed, together with changes to Social Security and Medicare. More controversially, he advocates competition among America's schools as a way to improve sagging educational standards.

These ideas for raising America's rate of growth, though mostly orthodox, are lent a strange new vitality by the rest of this unorthodox book. Rich as it is, America still needs to grow—not for faster cars and iPods, but to “find the energy, the wherewithal, and most importantly the human attitudes that together sustain an open, tolerant and democratic society.”

The Moral Consequences of Economic Growth.
By Benjamin M. Friedman.
Knopf; 592 pages; $35

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Plant taxonomy

Meet the family

Nov 10th 2005
From The Economist print edition

AGRICULTURE and horticulture are among man's most ancient activities, so it is remarkable that ignorance about the basic mechanics of plant life persisted until the late 1600s when John Ray, one of the heroes of this splendid book, effectively invented the study of botany.

In the preceding centuries, numerous scholars had grappled with the mystery of how plants are created and reproduce, how they relate to each other and how to tell whether a newly discovered specimen is something really new or a variety of a known species: a critical consideration in deciding what to call it. Evidence of the failure to find answers lies in the consistently unreliable plant guides and "herbals" compiled between the third century BC, when Theophrastus, a Greek philosopher, produced the first known work in the field, and 1633, when Thomas Johnson published his revised and corrected edition of a herbal that had been written nearly 40 years earlier by a fellow Englishman, John Gerard.

The Naming of Names: The Search for Order in the World of Plants
By Anna Pavord

Bloomsbury; 384 pages; $45 and £30

Buy it at
Amazon.com
Amazon.co.uk

Until the 18th century, plants were grown chiefly for food or medicinal purposes. It therefore made sense (of a sort) to group them in relation to their supposed properties—herbs that would cure indigestion under one heading, remedies for gout under another—even if in many cases the beneficial effects were illusory. (There is no record of the failure rate of the cyclamen leaves that women in ancient Greece used as contraceptives.) And although some writers did attempt to classify plants by their physical characteristics, there was no consensus on which of these was most significant. Did similar-shaped leaves indicate a family relationship? Or the kind of seeds they grew from?

The belief in spontaneous generation was a further barrier to understanding. Gerard, writing before the migration pattern of birds was understood, declared that geese emerged from the encrustations on the bark of barnacle trees. Gnats were thought to be formed out of spots of dew on leaves. Andrea Cesalpino, a 16th-century papal physician and curator of the Pisa botanic garden, wrote that plant growth was controlled by a "brain" located at the junction between the roots and upper part, and that seeds were formed from pith squeezed out of the stem.

The truth that plants reproduce sexually was finally postulated by Nehemiah Grew in his "Anatomy of Plants" in 1682. Ray drew on this work for his "Historia Plantarum", proposing a system of classification that underpinned what later became broadly accepted. Anna Pavord believes that Grew's contribution was more significant even than that of the better-known Carl von Linné, called Linnaeus, born two years after Ray's death, who introduced the binomial naming system adopted internationally. Not until the late 20th century, when advances in genetic research allowed the analysis of DNA, were scientists able to offer definitive—and sometimes surprising—solutions to the mysteries of plant relationships.

Ms Pavord picks her meticulous way through a mass of complex literature in many languages, supported by a wealth of beguiling illustrations. It would be a surprise if a book on the nomenclature of plants were to become an international bestseller on the scale of her magnificent history of the tulip, published in 1999, but she tackles her subject with the same gusto. You feel you are stepping right beside her when she tracks down Cesalpino's herbarium in a little-visited botanical museum, and then stares at the pressed leaves and flowers that he plucked from Tuscan fields and gardens 440 years ago. Fuelled as she is by the same obsessive passions that have driven naturalists and gardeners down the ages, she has no rival in communicating her enthusiasms, even in such a technical field.

The Naming of Names: The Search for Order in the World of Plants.
By Anna Pavord.
Bloomsbury; 384 pages; $45 and £30

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Jihadists

A fresh look

Nov 10th 2005
From The Economist print edition

“AL-QAEDA'S importance in the long run lies not in its pioneering a new form of networked militancy, but instead in its fragmentation of traditional structures of Muslim authority within new global landscapes.” With these words, Faisal Devji, a historian at the New School for Social Research in New York, proposes a radically new way of thinking about Osama bin Laden's global *jihad*.

Landscapes of the Jihad: Militancy, Morality, Modernity
By Faisal Devji

Cornell University Press; 186 pages; $25.
Hurst; £15

Buy it at
Amazon.com
Amazon.co.uk

A fresh interpretation of *jihad* is certainly welcome. But do not approach this challenging essay, which was published in Britain in September and which comes out later this month in America, expecting a familiar narrative of al-Qaeda and its founder, or of the eponymous “war on terror”. Mr Devji dispenses with conventional analysis and with much that is regarded as received wisdom.

Mr Devji is certainly not the first writer to see al-Qaeda and its kind as products of globalisation. He owes an obvious debt to Olivier Roy, whose stimulating book, “Globalised Islam”, appeared in 2003. But Mr Devji goes much further than Mr Roy did in casting *jihad* as an entirely new kind of movement, one which has transcended conventional politics with its fixed (often territorial) goals, in favour of ethical demands for vague but potent abstractions such as justice and dignity.

To elaborate his thesis, Mr Devji describes how *jihad* has subordinated the local to the global. He plays down its Middle Eastern origins and he stresses its diverse sources (Shia and Sufi as well as Sunni) as well as its heterodox innovations. Mr bin Laden's transformation of *jihad*, for example, from a collective to an individual duty, is a radical departure from the classical Islamic tradition. But how else could a global movement operate in a post-modern world where Muslims are moved to applause or to action by some spectacular act of violence, which they see on a television or computer screen? Conventional forms of top-down recruitment and mobilisation are, it seems, as passé as conventional politics.

In depicting one amorphous abstraction (a “virtual” al-Qaeda) as being at war with another (“the West”) in the name of a third (an unrecoverable Islamic caliphate), Mr Devji might appear to be too concerned with smoke and mirrors. He does not excuse or downplay the violence of *jihad*, but it is not his main concern. Instead, he believes that the new jihadists have “stolen the radical edge from fundamentalism” (meaning the old, established state-centred groups such as Hamas and Hizbullah), and in the process are playing a far more significant role than the Islamic liberals (whom he sees as worthy but powerless) in bringing about a transformation of Islam.

This is one of several ideas that Mr Devji might profitably have developed further. He is at his weakest when he seeks merely to provoke rather than to convince. It is one thing, for example, to

challenge an Arabo-centric approach to radical Islam; quite another to dismiss, wholesale, the centrality of the Arab Middle East in the broad narrative of *jihad*. And the book's central term—*jihad*—is also in the end a rather-too-convenient shorthand, one that cannot altogether bear the weight of generalisation placed upon it.

Despite its obvious weaknesses, “Landscapes of the Jihad” is, in its unconventional thinking, an oasis in the wearisome desert of al-Qaeda studies. It is, in the best possible sense, subversive.

Landscapes of the Jihad: Militancy, Morality, Modernity.
By Faisal Devji.
Cornell University Press; 186 pages; $25.
Hurst; £15

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Restaurant guides

Hallelujah chorus

Nov 10th 2005 | NEW YORK
From The Economist print edition

AP

Fly me to the moon

New York City 2006: Restaurants & Hotels

Michelin Travel Publications; 480 pages; $16.95

Buy it at
Amazon.com
Amazon.co.uk

YOU can imagine early 20th-century Frenchmen wondering why on earth a tyre company was telling them where to eat. Now, in America, Michelin faces much the same task of persuasion—and with the added handicap of coming from America's least-favourite European country of the moment. This week the *New York Post* called Michelin's 2006 New York restaurant and hotel guide, the first of the little red books to venture beyond Europe, “a 480-page insult to the world's greatest dining city” from the “meatballs at Michelin”.

The meatballs can cope with a bit of heat. A pasting from the *Post* is not going to put off well-travelled Americans, or well-heeled foreign tourists, who already know and respect Michelin guides. But Michelin wants untravelled Americans to love them too, and here it faces a tough sales job.

The French factor aside, Michelin has a daunting rival in Zagat, a home-grown publishing house which compiles its guides and ratings from thousands of reviews sent in by readers. The Zagat approach is bottom-up, popular, inclusive. Michelin relies on a few full-time inspectors; it is top-down, expert, exclusive. No prizes for guessing which approach Americans will instinctively prefer.

To attract new readers, Michelin has made its New York guide chattier and easier to navigate than its European books. But then it shows weakness. Instead of challenging the city's established wisdom about where to eat, the guide mainly parrots it. The highest ratings, with a very few

exceptions, go to the same New York restaurants—such as Per Se, Le Bernardin, Jean Georges and Alain Ducasse at the Essex House—which have already been given top marks by Zagat and the *New York Times*. Among all 39 restaurants which get stars from Michelin for their cooking, there are only two real surprises: the Spotted Pig, a gastropub in Greenwich Village, and Saul, a bistro in Brooklyn.

New Yorkers love an argument. And Michelin could have provoked a cracker of one by showing more healthy scepticism towards the city's over-praised big names, and by promoting more new and unfashionable ones. Instead it has tried to ingratiate itself, and failed. Can New York really deserve as many three-star restaurants as the whole of Italy—four in each case? Still, there will be future editions, and red guides for more American cities. The tyre guys need to tread more boldly.

New York City 2006: Restaurants & Hotels.
Michelin Travel Publications; 480 pages; $16.95

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The Raj

Thin red line

Nov 10th 2005
From The Economist print edition

THE deeper the Iraqi quagmire, the more remarkable it is to contemplate the lone superpower of a century ago. There are a number of differences between America in Iraq today and Britain in India at the dawn of the 20th century. But the fact remains that Britain took and held a sub-continent with numbers that still amaze. By 1901, India's population was around 300m, yet it was secured and governed by a British contingent numbering only 154,000 including dependants. Rarely, if ever, have so few achieved so much in terms of the extension of administration and infrastructure, while continuing to acquire more territory. One need not approve of empire-building to be impressed at how it was done.

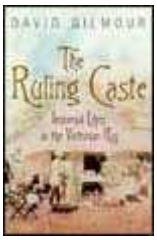
Of two new books about the men who made this possible, the more engaging is David Gilmour's on the “civilians”, the members of the Indian Civil Service, who were sent out from Britain ludicrously young to administer, often on their own, districts containing millions of souls.

Mr Gilmour, who has written about Lord Curzon and Rudyard Kipling, brings to life civilians of every stripe, from the young “griffins”, as newcomers to both the civil and the military sides were called, to the splendiferously titled governors-general, residents, agents, commissioners, collectors and chief secretaries.

But what is most surprising is the sadness. “The exiles' line”, one civilian called his fellow administrators, and Mr Gilmour stresses over and over the isolation that so many of these men felt, especially after the Indian Mutiny of 1857, which prompted the British to withdraw ever more into themselves. In the 18th century, many an East India Company man became an adoptive Indian: by the 19th it was for most just a career. There were very few old British or young ones in India. And the story of the Raj, often enough, is a story of early death, of parents separated from children for decades at a time and an eventual homecoming to a country that by the end often regarded the Indian adventure as a mistake and the civilians as India bores.

Hardship rather than sadness is the dominant note in Richard Holmes's book, an exhaustive (and sometimes exhausting) chronicle of the many different categories of Briton who found themselves in India on active service. Mr Holmes has previously dissected the lives of 18th and 20th century ordinary soldiers, in “Redcoat” and “Tommy” respectively. Now he does it for India, confining himself mainly to the 19th.

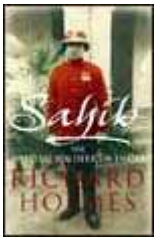
The Ruling Caste: Imperial Lives in the Victorian Raj
By David Gilmour



John Murray; 383 pages; £25. To be published in America by Farrar, Straus and Giroux in February

Buy it at
Amazon.co.uk

Sahib: The British Soldier in India
By Richard Holmes



HarperCollins; 572 pages; £20

Buy it at
Amazon.co.uk

Though lovers of pomp and circumstance will find plenty to regale them in the form of pig-sticking, Calcutta balls and regimental dinners, this is predominantly an account of what it was like to serve as an ordinary soldier in a scorched and unhealthy land. Some went as mercenaries, attached to India's princely states (of which there were still said to be 680 in 1901). Others were there as the officers and men of regular British army units.

The most interesting category was the officers and men of the East India Company's native units, who served over and alongside the sepoys who made up the bulk of the India army. Mr Holmes has plenty to say about all three, statistics about everything from rations to the incidence of venereal disease, and excellent chapters on military technology: not just British guns, but Indian fortresses. In the end, though, none of his characters is as fascinating as those who haunt Mr Gilmour's book, whose courts and railways, schools and drainage projects still furnish India even today, while the thin red line has vanished with scarcely a trace.

The Ruling Caste: Imperial Lives in the Victorian Raj.
By David Gilmour.
John Murray; 383 pages; £25. To be published in America by Farrar, Straus and Giroux in February

Sahib: The British Soldier in India.
By Richard Holmes.
HarperCollins; 572 pages; £20

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Sir Charles Mackerras

Medallion man

Nov 10th 2005
From The Economist print edition

Australian for Ausstrahlung

TO TWO generations of British singers and orchestral players, he is known as Charlie. To his staunch audience, he is one of the great British conductors of his time, along with Sir Simon Rattle and Sir Colin Davis, although he is not as well known as either of them.

On November 17th, Sir Charles Mackerras will turn 80. The occasion may begin to raise his profile, and not before time. Decca, EMI and Supraphon are releasing celebratory CDs, and the BBC is about to devote seven evenings to concerts of the work he likes and conducts best. Sir Simon is the only other conductor who has received the BBC's week-long accolade.

John Evans, the executive producer of BBC Mackerras Week, says: “He's a musicians' conductor, not a celebrity cult conductor, like Karajan.” Sir Charles has been knighted and awarded the Companion of Honour, but he was ignored for too long by the British musical establishment at Aldeburgh and Glyndebourne. The Royal Opera House, too, was painfully slow to welcome him. But, he will conduct Verdi's “Un Ballo in Maschera” there on his birthday. And on November 22nd, which honours St Cecilia, the patron saint of church music, he goes to Buckingham Palace to receive the first Queen's Medal for Music.

Like many fine musicians who have done much to improve the quality of British musical life, Sir Charles is not British. He is Australian, though he was born in Schenectady, New York, where his father was doing an electrical-engineering course. His passion for music was bred in Sydney, where he played the oboe in the Sydney Symphony Orchestra aged 16. At 20, he indicated the kind of musician he would become when he grabbed the opportunity to play in a concert in Brisbane because it would enable him to look at the only facsimile in Australia of Handel's autograph copy of “Messiah”.

Sir Charles has lived in London since 1947, without ever severing himself from his roots (he conducted the first performance in the Sydney Opera House). Studying in Prague, he discovered Janacek's operas, then found only in obscure, half-forgotten scores. Sir Charles presided over the Janacek resurrection. He conducted the first British performance of “Katya Kabanova” at Sadler's Wells in 1951, and, over the next 50 years, watched proudly as a mother hen as Janacek's work became commonplace in opera houses everywhere. The Czechs awarded him a medal nine years before the queen did.

He is, he says, a mixture of stubbornness and enthusiasm. One more quality is harder to define. Conductors must have it, and musicians must recognise it, if they are to produce an original orchestral sound. The Germans call it *Ausstrahlung*, meaning emanation, or the force of personality. Off the podium, Sir Charles is patient, generous and cheerful. On it, he can be impatient and unforgiving. “Do you read music, Mr Bostridge?” he once asked the distinguished English singer when he was making unusually heavy weather in rehearsal. Sir Charles does not

always wear his learning lightly, which annoys some musicians, but they admire his fidelity to a composer's wishes, and his technical skill. “He's very good at dangerous corners in the music. That's when you're glad to have him,” says a player in the Orchestra for the Age of the Enlightenment.

He has been music director of Sadler's Wells (later the English National Opera) and of the Welsh National Opera—where he taught a generation of British singers—but never the Royal Opera House. He says he was regarded there as a brash Aussie. “The reason I didn't get to Covent Garden as soon as I should have was because Sir David Webster [the administrator until 1970] did not think I was a gentleman.” The establishment embrace has come to him late in life.

Fortunately, Sir Charles does not believe in time off. His wife Judy says he is only happy when he is in front of an orchestra. He has already committed himself to concerts in 2008, though whenever he agrees to a future engagement, he adds “if alive”. But many conductors are long-lived: Leopold Stokowski was 95 when he died, Arturo Toscanini 89 and Karl Böhm 86. If he lasts that long, it may be a case of the Queen's Medal for Music—and bar.

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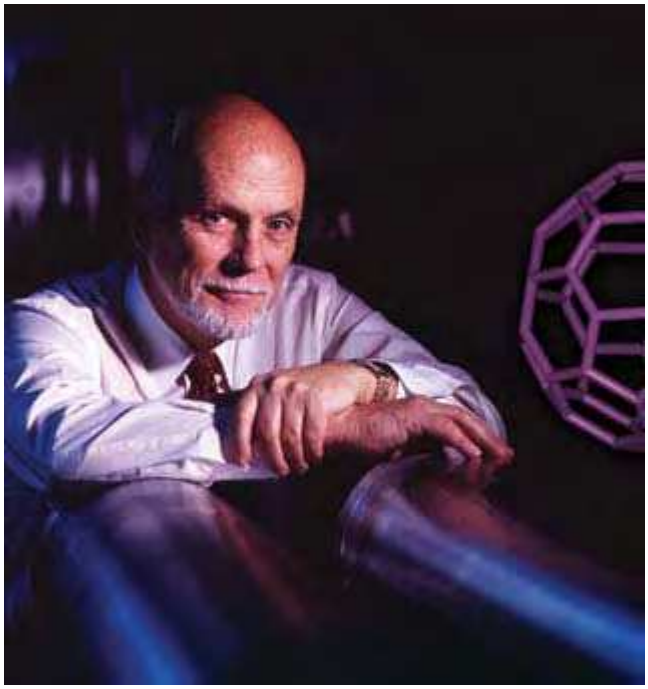
Obituary

Richard Smalley

Nov 10th 2005
From The Economist print edition

Richard Smalley, champion of nanotechnology, died on October 28th, aged 62

Rice University



Get article background

AMONG Nobel laureates, Richard Smalley was unusual. He discovered something that is quite easy to understand, though far too small to see. Until 1985, scientists only knew two forms of pure carbon, diamond and graphite, which derive their difference from the way the carbon atoms are bonded to each other. Dr Smalley's Nobel prize for chemistry in 1996, shared with a team at Rice University in Houston, Texas, was for finding a third and very novel form of carbon indeed.

Dr Smalley stumbled on the new molecule in 1985, as he carried out experiments to vaporise graphite with lasers. Analysis of the results showed clusters of exactly 60 carbon atoms that were extremely stable. As Dr Smalley puzzled over the tiny spheres, building paper models of them in his kitchen, he realised that their structure was a system of interlocking hexagons and pentagons: the same design as a football, or as the geodesic dome designed by Buckminster Fuller in 1967. So the new molecule, C60, was called the buckyball, or, when Dr Smalley was feeling impish, the buckminsterfullerene.

Buckyballs, once found, turned up in substances as commonplace as the soot made by candles. Scientists wondered eagerly what they might be useful for, and fancied they might make perfect lubricants, or molecular ball bearings. But Dr Smalley's discovery turned out to be much more important for the explosion of research it prompted into the properties of structures at the smallest end of the scale.

The buckyball was merely the first in a whole new family of fullerenes, a group of symmetrical carbon-cage molecules. There were also oblong balls, huge spheres, and Y-shaped things. An infinite class of materials, it appeared, were made of carbon folded on itself. Dr Smalley's favourite was the carbon nanotube, a perfect, elongated carbon molecule with strength perhaps 100 times that of steel and conductivity better than copper. Dr Smalley liked to call it the “buckytube”, but the name never quite caught on.

Dr Smalley had huge hopes for this tiny science. He dreamed of breaking the “100 nanometre barrier” (100 billionths of a metre), to put semiconductor circuits on molecules of carbon, and to make a single molecule into a transistor. Silicon, he was sure, would have to be abandoned; carbon was the new world, and his buckytubes were stable enough both to let electrons through, and to survive in air, water and high temperatures, without changing their identities.

This field, the study and manipulation of materials at small scales, became known as nanotechnology. Dr Smalley summed it up as “tremendous power in tiny places”. In 2000, he helped found Carbon Nanotechnologies to manufacture nanotubes in bulk. Ideally, he once half-joked, he would have liked to train bacteria to make them.

Powers of persuasion

Science, pure and applied, had been in his background a long time. He was born in Akron, Ohio, a city built on rubber. His father had high expectations; his mother, fascinated by science, called him Mr President. More than anything, though, he was drawn to science by the launch of *Sputnik* in 1957. This led to a lifelong belief that science and technology were the key to any nation's future.

With nanotechnology, he was a man on a mission. He believed it could solve the world's ills, from providing cheap energy to providing new ways of detecting and treating disease. Passionately, he urged the American government to invest in it, arguing that it would inspire the next generation of scientists. And he was persuasive. In 2001, Bill Clinton put up funding substantially; in 2003, George Bush agreed to spend $3.65 billion over four years on the National Nanotechnology Initiative. Today, all America's top universities have nanotechnology programmes. Dr Smalley's success can be measured in the grumblings from scientists in other fields, and in the way the rest of the world has been scrambling to catch on.

In his last years, he devoted much time to fighting another prominent champion of nanotechnology, Eric Drexler. Dr Drexler had suggested that nanotechnology should be used to make self-replicating machines called “nanobots”; environmentalists worried that such things might one day get out of control. Dr Smalley saw off both camps, painting Dr Drexler's robots as foolish and insisting that nanotechnology was only a force for good. In private, he joked that he had “squashed that bug”.

Meanwhile, he never stopped trying to work out the structure of things. He once asked a writer, “Do you see the words in your mind rolling out in linear form before you actually write them, or do you write in a series of abstract thoughts and set about organising them?” With his cancer, which he struggled with for the last six years of his life, he wanted to understand too. “Tell it to me straight,” he asked the doctor, “how do we kill this bastard?”

As he grew older, however, he became more convinced that science could do little or nothing to explain the world of spirituality. The more he learned, the more he realised that even the cleverest scientist understood only the tip of the material iceberg. “So how”, he wondered, “can we know what we cannot even see?”

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Overview

Nov 10th 2005
From The Economist print edition

America's **labour productivity** grew at a blistering pace in the third quarter. Output per hour of work in the non-farm business sector expanded at an annual rate of 4.1%, after growing by 2.1% in the second quarter. Hiring was muted: non-farm businesses added a disappointing 56,000 workers to their **payrolls** in October. The construction industry recruited 33,000, and manufacturing 12,000. But retailers shed jobs and hiring in other service sectors was weak. The unemployment rate edged down to 5.0%.

In the **euro area**, retail sales grew by 0.9% in volume in the year to September. Sales grew by 2.6% in France and 1.9% in Spain, but shrank in Germany. Unemployment in the euro area fell to 8.4% in September.

Industrial production accelerated in Germany, growing by 3.3% in the year to September. In Britain, it fell by 1.1% over the same period. The manufacturing sector suffered its second monthly contraction in a row.

Germany chalked up a visible **trade surplus** of $18.4 billion in September. Britain, by contrast, ran a deficit of $9.8 billion. When trade in services is taken into account, Britain's deficit narrowed to a seasonally-adjusted $6.9 billion, after reaching a whopping $10.1 billion the month before. August's figure reflected a big payment of insurance claims by Lloyd's of London in the wake of Hurricane Katrina.

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Output, demand and jobs

Nov 10th 2005
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	latest	qtr*	2005	2006	latest		latest		latest	year ago
Australia	+ 2.6 Q2	+ 5.2	+ 2.7	+ 3.3	+ 0.7 Q2		+ 1.2 Q3		5.2 Oct	5.3
Austria	+ 2.1 Q2	+ 1.8	+ 1.6	+ 1.9	+ 4.4 Aug		+ 6.5 Aug		5.3 Oct	4.9
Belgium	+ 1.1 Q3	+ 1.6	+ 1.3	+ 1.8	– 2.3 Aug		+ 7.4 Aug		13.5 Sep†	13.2
Britain	+ 1.6 Q3	+ 1.6	+ 1.8	+ 2.1	– 1.1 Sep		+ 0.7 Sep		4.7 Aug††	4.7
Canada	+ 2.7 Q2	+ 3.2	+ 2.9	+ 3.0	+ 1.7 Aug		+ 6.7 Jul		6.6 Oct	7.1
Denmark	+ 4.3 Q2	+ 6.6	+ 2.2	+ 2.2	+ 2.0 Sep		+ 8.4 Sep		5.5 Sep	6.3
France	+ 1.3 Q2	+ 0.5	+ 1.5	+ 1.7	+ 2.0 Aug		+ 2.6 Sep		9.8 Sep	10.0
Germany	+ 0.6 Q2	nil	+ 0.9	+ 1.3	+ 3.3 Sep		– 0.7 Sep		11.6 Oct§	10.7
Italy	+ 0.1 Q2	+ 2.7	+ 0.2	+ 1.2	+ 6.1 Aug		+ 1.1 Aug		7.7 Jun	8.1
Japan	+ 1.4 Q2	+ 3.3	+ 2.3	+ 2.0	+ 1.0 Sep		+ 1.9 Aug		4.2 Sep	4.6
Netherlands	+ 1.3 Q2	+ 4.9	+ 0.7	+ 1.7	+ 1.6 Sep		+ 1.9 Aug		6.6 Sep**	6.1
Spain	+ 3.4 Q2	+ 3.4	+ 3.4	+ 3.0	+ 0.5 Sep		+ 1.9 Sep		9.3 Sep	10.8
Sweden	+ 2.3 Q2	+ 2.6	+ 2.3	+ 2.8	nil Sep		+ 6.5 Sep		5.4 Sep†	5.8
Switzerland	+ 1.0 Q2	+ 1.1	+ 1.1	+ 1.6	+ 3.9 Q2		+ 4.7 Aug		3.7 Oct†	3.7
United States	+ 3.6 Q3	+ 3.8	+ 3.6	+ 3.3	+ 2.0 Sep		+ 2.6 Sep		5.0 Oct	5.5
Euro area	+ 1.1 Q2	+ 1.2	+ 1.3	+ 1.6	+ 2.6 Aug		+ 0.9 Sep		8.4 Sep	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	+ 0.2 Q2	– 6.3	na	na	– 0.8 Sep		+ 5.8 Aug		8.3 Sep	8.4
Greece	+ 3.7 Q2	na	na	na	+ 1.4 Aug		+ 3.9 Aug		9.9 Mar	10.8
Iceland	+ 6.8 Q2	na	na	na	na		na		1.8 Aug†	2.9
Ireland	+ 4.1 Q2	+ 6.5	na	na	+16.6 Aug		+ 4.2 Aug		4.4 Oct	4.4
Luxembourg	+ 3.1 Q1	na	na	na	+15.7 Jul		+ 1.2 Sep		4.7 Sep	4.2
New Zealand	+ 2.6 Q2	+ 4.5	na	na	– 1.5 Q2		+ 5.9 Q2		3.7 Q2	4.0
Norway	+ 4.8 Q2	+ 5.2	na	na	+ 5.0 Sep		+ 4.2 Sep		4.8 Sep‡	4.5
Portugal	+ 0.5 Q2	+ 4.1	na	na	+ 0.1 Sep		+ 2.5 Sep		7.2 Q2†	6.3

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Jun-Aug; claimant count rate 2.8% in Sep.
§EU harmonised rate 9.3% in Aug. **Jul-Sep.

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Prices and wages

Nov 10th 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	The Economist poll consumer prices forecast 2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.0	Q3	+ 2.3	+ 2.8	+ 2.7	+ 6.2	Q3	+ 6.1	+ 5.8	Q2	+ 3.0
Austria	+ 2.4	Sep	+ 2.1	+ 2.2	+ 2.0	+ 1.3	Oct	+ 6.0	+ 2.3	Sep	+ 2.0
Belgium	+ 2.5	Oct	+ 2.9	+ 2.5	+ 2.2	+ 1.5	Sep	+ 6.0	+ 2.5	Jul	+ 2.2
Britain	+ 2.5	Sep*	+ 1.1	+ 2.2	+ 2.2	+ 3.3	Sep	+ 3.1	+ 4.2	Aug†	+ 3.8
Canada	+ 3.4	Sep	+ 1.8	+ 2.4	+ 2.5	+ 0.6	Sep	+ 4.8	+ 1.1	Aug	+ 2.0
Denmark	+ 2.0	Oct	+ 1.7	+ 1.8	+ 1.9	+ 5.3	Sep	+ 3.4	+ 2.9	Q2	+ 3.1
France	+ 1.8	Oct	+ 2.1	+ 1.9	+ 1.7	+ 3.4	Sep	+ 3.0	+ 2.9	Q2	+ 2.8
Germany	+ 2.4	Oct	+ 2.0	+ 2.0	+ 1.9	+ 2.7	Oct	+ 4.2	+ 0.9	Aug	+ 1.6
Italy	+ 2.2	Oct	+ 2.0	+ 2.1	+ 2.1	+ 3.8	Sep	+ 3.8	+ 3.1	Sep	+ 2.5
Japan	– 0.3	Sep	nil	– 0.1	+ 0.3	+ 1.7	Sep	+ 1.9	– 0.2	Sep	+ 1.6
Netherlands	+ 1.6	Oct	+ 1.4	+ 1.5	na	+ 4.9	Aug	+ 5.5	+ 1.0	Oct	+ 0.9
Spain	+ 3.7	Sep	+ 3.2	+ 3.3	+ 3.1	+ 5.4	Sep	+ 4.6	+ 3.4	Q2	+ 3.1
Sweden	+ 0.6	Sep	+ 0.6	+ 0.8	+ 1.5	+ 4.2	Sep	+ 2.1	+ 3.0	Aug	+ 2.6
Switzerland	+ 1.3	Oct	+ 1.3	+ 1.3	+ 1.2	+ 1.5	Sep	+ 1.5	+ 0.9	2004	+ 1.4
United States	+ 4.7	Sep	+ 2.5	+ 3.4	+ 3.1	+ 6.7	Sep	+ 3.3	+ 2.9	Oct	+ 2.6
Euro area	+ 2.5	Oct	+ 2.4	+ 2.2	+ 1.9	+ 4.4	Sep	+ 3.3	+ 2.3	Q2	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.2	Sep	+ 0.4	na	na	+ 3.8	Sep	+ 2.5	+ 4.0	Q2	+ 3.8
Greece	+ 3.8	Oct	+ 3.2	na	na	+ 6.7	Sep	+ 4.9	na		na
Iceland	+ 4.6	Oct	+ 3.7	na	na	+ 4.2	Oct	+ 5.6	+ 6.9	Sep	+ 5.3
Ireland	+ 3.0	Sep	+ 2.5	na	na	– 0.2	Sep	– 0.8	+ 3.4	Q2	+ 4.3
Luxembourg	+ 3.1	Oct	+ 2.5	na	na	+ 4.1	Aug	+11.3	+ 1.2	Aug	+ 2.3
New Zealand	+ 3.4	Q3	+ 2.5	na	na	+ 4.7	Q2	+ 1.5	+ 3.0	Q3	+ 2.2
Norway	+ 1.8	Oct	+ 1.4	na	na	+10.1	Oct	+24.1	+ 3.8	Q2	+ 4.1
Portugal	+ 2.8	Sep	+ 2.1	na	na	+ 4.5	Sep	+ 4.5	nil	Aug	– 2.2

*RPI inflation rate 2.7% in Sep. †Jun-Aug.

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Economic forecasts

Nov 10th 2005
From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2005	2006	2005	2006	2005	2006	2005	2006
Australia	2.4/3.0	2.8/3.8	2.7 (2.6)	3.3	2.8 (2.6)	2.7	-4.7(-4.8)	-5.3(-4.4)
Austria	0.8/2.0	1.6/2.1	1.6 (1.8)	1.9 (2.0)	2.2	2.0	-0.2(-0.4)	-0.3(-0.6)
Belgium	1.1/1.4	1.4/2.2	1.3	1.8 (1.7)	2.5	2.2	2.4 (2.8)	2.4 (2.7)
Britain	1.6/1.9	1.5/2.5	1.8 (1.9)	2.1	2.2 (2.1)	2.2	-2.2(-2.4)	-2.4(-2.5)
Canada	2.6/3.2	2.5/3.5	2.9	3.0	2.4 (2.3)	2.5 (2.4)	1.6	1.5
Denmark	1.5/2.4	1.7/2.6	2.2 (2.0)	2.2 (2.1)	1.8 (1.6)	1.9	2.8 (2.9)	2.5 (2.7)
France	1.1/1.7	1.3/2.0	1.5 (1.4)	1.7 (1.6)	1.9 (2.0)	1.7	-1.0(-0.8)	-0.8
Germany	0.4/1.1	0.7/1.8	0.9	1.3 (1.1)	2.0 (1.9)	1.9 (1.8)	3.7	3.5
Italy	-0.1/0.4	0.8/1.6	0.2 (nil)	1.2 (0.9)	2.1 (2.2)	2.1	-1.3(-1.4)	-1.4(-1.5)
Japan	1.8/2.4	1.3/2.5	2.3 (2.2)	2.0	-0.1	0.3	3.3 (3.4)	3.3
Netherlands	0.5/0.9	1.3/2.3	0.7 (0.6)	1.7 (1.6)	1.5	na	3.6 (3.7)	3.6
Spain	3.0/3.5	2.7/3.2	3.4 (3.3)	3.0 (2.9)	3.3 (3.2)	3.1	-6.6(-6.1)	-6.6(-6.0)
Sweden	2.1/2.6	2.3/3.3	2.3	2.8 (2.7)	0.8 (0.7)	1.5	7.1	6.5 (6.6)
Switzerland	1.0/1.3	1.1/2.0	1.1	1.6	1.3 (1.2)	1.2	12.3(11.4)	11.7(10.9)
United States	3.4/3.7	2.6/4.0	3.6 (3.5)	3.3 (3.2)	3.4 (3.2)	3.1 (3.0)	-6.5	-6.6
Euro area	1.0/1.4	1.3/1.8	1.3 (1.2)	1.6 (1.5)	2.2	1.9	0.1 (0.2)	0.1 (0.2)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel has become a bit more upbeat about the outlook for growth. It now expects America to grow by 3.6% in 2005 and by 3.3% in 2006, up from 3.5% and 3.2% respectively last month. It is forecasting euro-area growth of 1.3% in 2005 and 1.6% in 2006, up from 1.2% and 1.5% respectively in October. However, it has shaved this year's growth forecast for Britain from 1.9% to 1.8%. And it now expects American inflation to be 3.4% in 2005 and 3.1% in 2006, up from 3.2% and 3.0% respectively in October.

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Money and interest rates

Nov 10th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Nov 9th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.6	+ 9.8	Sep	5.63	5.44	5.36	5.51	5.49	6.51
Britain	+ 5.2	+11.2	Sep	4.56	4.84	4.41	4.39	4.74	5.16
Canada	+10.9	+ 9.8	Sep	3.15	2.66	3.72	4.18	4.56	5.36
Denmark	+22.8	+16.3	Sep	2.35	2.25	2.77	3.48	3.90	4.99
Japan	+ 5.4	+ 2.0	Oct	0.02	0.03	0.31	1.57	1.49	1.67
Sweden	+ 2.8	+ 5.6	Sep	1.49	2.03	2.37	3.43	4.15	3.24
Switzerland	+ 3.2	+ 6.3	Sep	0.94	0.75	1.67	2.20	2.47	2.33
United States	+ 0.3	+ 6.6	Sep	4.06	2.23	4.48	4.63	4.25	5.54
Euro area†	+11.2	+ 8.5	Sep	2.31	2.17	2.67	3.49	3.83	3.81

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.84%, Japan No. 273 1.56%. Central bank rates: US fed funds 4.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 10th 2005
From The Economist print edition

The Economist commodity price index

2000=100

	Nov 1st	Nov 8th*	% change on one month	% change on one year
Dollar index				
All items	134.1	134.9	– 0.4	+11.2
Food	122.5	123.0	– 1.1	+ 8.1
Industrials				
All	149.1	150.3	+ 0.3	+14.7
Nfa†	133.2	132.4	– 2.6	+ 9.2
Metals	157.7	160.1	+ 1.6	+17.3
Sterling index				
All items	115.4	117.6	– 0.1	+18.7
Euro index				
All items	103.4	106.1	+ 1.5	+22.1
Yen index				
All items	145.2	146.8	+ 2.0	+23.3
Gold				
$ per oz	459.75	461.45	– 3.1	+ 6.2
West Texas Intermediate				
$ per barrel	59.88	59.57	– 6.2	+25.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Nov 9th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,476.3	4,617.4	3,905.5	+ 1.5	- 3.1	+10.4	+ 3.4
Austria (ATX)	3,326.4	3,503.9	2,415.0	+ 0.3	- 5.1	+36.8	+18.1
Belgium (Bel 20)	3,337.3	3,373.8	2,958.8	+ 1.8	- 9.4	+13.8	- 1.8
Britain (FTSE 100)	5,439.8	5,501.6	4,783.6	+ 1.5	-21.5	+13.0	+ 2.4
Canada (Toronto Composite)	10,656.5	11,081.2	9,006.2	+ 0.7	- 6.4	+15.2	+16.2
Denmark (OMXCB)	338.7	341.9	257.8	+ 1.4	- 0.9	+31.4	+13.1
France (SBF 250)	3,126.2	3,248.3	2,633.6	+ 1.2	-28.8	+18.7	+ 2.5
(CAC 40)	4,480.2	4,650.2	3,816.1	+ 1.1	-35.3	+17.2	+ 1.2
Germany (DAX)*	5,011.4	5,138.0	4,178.1	+ 1.1	-37.9	+17.7	+ 1.7
Italy (S&P/MIB)	33,429.0	34,874.0	30,645.0	+ 1.5	-33.3	+ 8.2	- 6.6
Japan (Nikkei 225)	14,072.2	14,076.0	10,825.4	+ 1.3	-63.8	+22.5	+ 6.9
(Topix)	1,487.7	1,499.1	1,109.2	+ 0.9	-48.4	+29.4	+12.9
Netherlands (AEX)	403.9	408.7	347.0	+ 1.7	-42.4	+16.0	+ 0.2
Spain (Madrid SE)	1,127.4	1,176.9	950.9	+ 0.3	- 4.2	+17.6	+ 1.5
Sweden (Affarsvarlden Gen)	272.0	273.7	218.9	+ 1.5	-32.0	+23.0	- 0.1
Switzerland (Swiss Market)	7,238.5	7,257.5	5,669.6	+ 1.7	-14.0	+27.1	+10.0
United States (DJIA)	10,546.2	10,940.6	10,012.4	+ 0.7	-10.0	- 2.2	- 2.2
(S&P 500)	1,220.7	1,245.0	1,137.5	+ 0.5	-20.1	+ 0.7	+ 0.7
(NASDAQ Comp)	2,175.8	2,218.2	1,904.2	+ 1.5	-56.9	nil	nil
Europe (FTSEurofirst 300)†	1,225.3	1,242.0	1,038.6	+ 1.7	-28.1	+17.6	+ 1.5
Euro area (FTSE Euro 100)†	1,024.0	1,056.1	894.4	+ 1.1	-34.0	+13.7	- 1.9
World (MSCI)‡	1,206.0	1,225.6	1,115.0	nil	-16.8	+ 3.1	+ 3.1
World bond market (Citigroup)††	610.6	662.3	610.6	- 1.6	- 7.8	- 8.3	- 8.3

*Total return index. †In euro terms. ‡Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 10th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Nov 9th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Nov 9th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 16.1 Sep	− 43.1 Q2	− 4.7	− 5.3	117.0	114.2	1.36	1.32	2.37	1.60	1.16	+ 0.9
Austria	− 1.2 Aug	− 0.3 Aug	− 0.2	− 0.3	104.0§	104.1	0.85	0.77	1.48	–	0.73	− 2.0
Belgium	+ 16.3 Aug	+ 9.2 Jun	+ 2.4	+ 2.4	104.5§	104.6	0.85	0.77	1.48	–	0.73	− 0.5
Britain	−116.7 Sep	− 23.5 Q2	− 2.2	− 2.4	99.3	98.7	0.57	0.54	–	0.67	0.49	− 2.9
Canada	+ 45.6 Aug	+ 16.3 Q2	+ 1.6	+ 1.5	122.6	119.6	1.19	1.20	2.07	1.39	1.01	+ 1.2
Denmark	+ 9.9 Aug	+ 11.0 Sep	+ 2.8	+ 2.5	105.6	106.7	6.36	5.75	11.1	7.46	5.42	+ 1.8
France	− 27.7 Sep	− 25.9 Aug	− 1.0	− 0.8	107.0§	107.2	0.85	0.77	1.48	–	0.73	− 3.0
Germany	+203.9 Sep	+113.6 Sep	+ 3.7	+ 3.5	104.8§	104.9	0.85	0.77	1.48	–	0.73	− 3.5
Italy	− 8.8 Aug	− 28.5 Aug	− 1.3	− 1.4	76.6§	76.7	0.85	0.77	1.48	–	0.73	− 4.4
Japan	+104.9 Aug	+163.7 Aug	+ 3.3	+ 3.3	82.7	87.3	117	107	204	138	–	− 6.1
Netherlands	+ 40.3 Aug	+ 28.3 Q2	+ 3.6	+ 3.6	103.9§	104.1	0.85	0.77	1.48	–	0.73	− 2.2
Spain	− 92.9 Aug	− 75.9 Jul	− 6.6	− 6.6	77.3§	77.3	0.85	0.77	1.48	–	0.73	+ 0.5
Sweden	+ 21.3 Sep	+ 27.9 Q2	+ 7.1	+ 6.5	92.9	100.3	8.18	7.01	14.2	9.59	6.96	+ 0.8
Switzerland	+ 7.2 Sep	+ 51.4 Q2	+12.3	+11.7	106.8	109.4	1.31	1.18	2.29	1.54	1.12	− 1.0
United States	−737.4 Aug	−749.7 Q2	− 6.5	− 6.6	88.1	82.5	–	–	1.74	1.17	0.85	− 4.1
Euro area	+ 49.4 Aug	+ 6.0 Aug	+ 0.1	+ 0.1	114.5	118.5	0.85	0.77	1.48	–	0.73	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.4 Aug	+ 7.7 Aug	na	na	81.5§	81.6	0.85	0.77	1.48	–	0.73	+ 1.3
Greece	− 33.8 Aug	− 16.2 Aug	na	na	59.9§	60.0	0.85	0.77	1.48	–	0.73	− 3.8
Iceland	− 1.3 Sep	− 1.6 Q2	na	na	106.7**	96.1	62.0	67.8	108	72.8	52.8	+ 1.1
Ireland	+ 40.3 Aug	− 3.9 Q2	na	na	94.2§	94.4	0.85	0.77	1.48	–	0.73	− 0.7
Luxembourg	− 4.4 Aug	+ 3.5 Q2	na	na	104.5§	104.6	0.85	0.77	1.48	–	0.73	− 0.8
New Zealand	− 4.1 Sep	− 8.2 Q2	na	na	138.3	130.6	1.46	1.46	2.54	1.71	1.24	+ 3.2
Norway	+ 44.6 Sep	+ 40.8 Q2	na	na	112.8	107.2	6.60	6.34	11.5	7.74	5.62	+ 14.4
Portugal	− 14.2 Aug	− 16.5 Aug	na	na	93.7**	93.6	0.85	0.77	1.48	–	0.73	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, August average. ‡OECD forecast. **IMF, June average.

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Private pension funds

Nov 10th 2005
From The Economist print edition

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Overview

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From The Economist print edition

Brazil's industrial production fell by more than expected in September, reducing the 12-month growth rate to a mere 0.2%. Real interest rates of 13%, aimed at curbing inflation, are taking their toll on the economy.

Argentina's inflation rate rose to 10.7% in the year to October—its highest rate for more than two years. Russia's inflation rate is even higher, at 11.8% over the same period, although it fell from 12.4% in September.

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Equity valuations

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From The Economist print edition

Argentina has the most expensive shares of all the big emerging markets, according to an average of valuation multiples, such as price-earnings ratios and price-to-book values, calculated by BCA Research, an investment-research company. Argentina's average multiple is almost 16, and India's almost 14, compared with a multiple of about ten in America.

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Economy

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From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.4	Q3	+16.5	Sep	+ 0.9	Sep	+101.5	Oct	+68.7	2004	769.0	Sep
Hong Kong	+ 6.8	Q2	– 0.1	Q2	+ 1.6	Sep	– 9.5	Sep	+21.3	Q2	121.9	Oct
India	+ 8.1	Q2	+ 7.4	Aug	+ 3.6	Sep	–35.5	Sep	–16.0	Q2	137.6	Oct
Indonesia	+ 5.5	Q2	+ 7.4	Aug	+17.9	Oct	+26.7	Sep	+ 4.0	Q2	30.2	Sep
Malaysia	+ 4.1	Q2	+ 4.9	Sep	+ 3.4	Sep	+24.4	Sep	+18.0	Q2	79.7	Sep
Philippines	+ 4.8	Q2	+ 7.3	Aug	+ 7.0	Oct	– 1.3	Aug	+ 3.2	Jun	15.6	Oct
Singapore	+ 6.0	Q3	+21.1	Sep	+ 0.6	Sep	+16.8	Sep	+32.5	Q2	115.6	Oct
South Korea	+ 4.4	Q3	+ 7.2	Sep	+ 2.5	Oct	+25.8	Oct	+18.6	Sep	206.7	Sep
Taiwan	+ 3.0	Q2	+ 6.2	Sep	+ 2.6	Oct	+ 2.9	Oct	+13.3	Q2	252.0	Oct
Thailand	+ 4.4	Q2	+ 4.8	Sep	+ 6.2	Oct	– 6.9	Sep	– 2.0	Sep	48.5	Sep
Argentina	+10.1	Q2	+ 6.8	Sep	+10.7	Oct	+11.4	Sep	+ 2.9	Q2	24.8	Sep
Brazil	+ 3.9	Q2	+ 0.2	Sep	+ 6.0	Sep	+41.9	Oct	+13.1	Sep	56.5	Sep
Chile	+ 6.5	Q2	+ 5.8	Sep	+ 4.1	Oct	+ 8.7	Oct	+ 0.6	Q2	15.7	Sep
Colombia	+ 5.3	Q2	+ 5.7	Aug	+ 5.3	Oct	+ 1.6	Aug	– 0.8	Q2	14.8	Sep
Mexico	+ 3.1	Q2	+ 2.1	Aug	+ 3.1	Oct	– 9.4	Sep	– 8.4	Q2	69.9	Sep
Peru	+ 6.7	Aug	+ 9.4	Aug	+ 1.3	Oct	+ 4.1	Aug	+ 0.4	Q2	12.7	Oct
Venezuela	+11.1	Q2	+12.4	Sep	+16.0	Oct	+24.7	Q2	+17.7	Q2	26.4	Aug
Egypt	+ 5.2	Q1	+ 3.3	2004†	+ 3.7	Sep	–10.4	Q2	+ 2.9	Q2	19.8	Sep
Israel	+ 4.8	Q2	+ 3.9	Aug	+ 1.9	Sep	– 8.3	Sep	+ 1.3	Q2	28.4	Oct
South Africa	+ 4.5	Q2	+ 3.5	Aug	+ 4.4	Sep	– 3.0	Sep	– 8.6	Q2	17.8	Oct
Czech Republic	+ 5.1	Q2	+ 8.6	Aug	+ 2.6	Oct	+ 1.5	Sep	– 4.1	Q2	29.4	Oct
Hungary	+ 4.1	Q2	+ 8.9	Sep	+ 3.7	Sep	– 3.5	Aug	– 8.6	Q2	17.5	Oct
Poland	+ 2.8	Q2	+ 5.5	Sep	+ 1.8	Sep	– 3.6	Aug	– 0.5	Aug	40.1	Oct
Russia	+ 6.1	Q2	+ 5.2	Sep	+11.8	Oct	+113.4	Aug	+78.3	Q2	161.2	Oct
Turkey	+ 4.2	Q2	+ 9.3	Sep	+ 7.5	Oct	–41.2	Sep	–21.4	Sep	41.8	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 9.9	Q2	+12.8	Sep	+ 4.5	Oct	– 2.4	Aug	– 1.4	Aug	1.7	Sep
Latvia	+11.6	Q2	+ 7.8	Sep	+ 7.6	Oct	– 2.8	Aug	– 1.7	Aug	2.3	Sep
Lithuania	+ 7.6	Q3	na		+ 2.9	Oct	– 3.2	Aug	– 1.5	Aug	3.6	Sep
Slovakia	+ 5.1	Q2	+ 5.4	Sep	+ 3.3	Oct	– 1.9	Aug	– 2.4	Jul	15.3	Sep
Slovenia	+ 5.2	Q2	+ 1.4	Aug	+ 3.1	Oct	– 1.4	Sep	+ 0.2	Aug	8.1	Aug
Pakistan	+ 8.4	2005†	+13.6	Apr	+ 8.5	Sep	– 7.9	Sep	– 1.5	Q2	10.2	Sep
Saudi Arabia	+ 6.2	2005	na		+ 0.4	Aug	+85.2	2004	+51.5	2004	24.8	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Financial markets

Nov 10th 2005
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	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 9th		Dec 31st 2004	
	Nov 9th	year ago	Nov 9th	% a year		one week	in local currency	in $ terms
China	8.09	8.28	14.1	2.20	1,164.8	+0.3	- 12.4	- 10.4
Hong Kong	7.76	7.78	13.5	4.20	14,597.6	nil	+ 2.6	+ 2.8
India	45.8	45.1	79.6	5.68	8,308.8	+2.9	+ 25.8	+ 19.6
Indonesia	9,940	9,043	17,302	14.63	1,052.8	-1.1	+ 5.3	- 1.7
Malaysia	3.78	3.80	6.58	2.95	906.6	-0.8	- 0.1	+ 0.5
Philippines	54.7	56.4	95.2	8.19	2,097.3	+4.5	+ 15.1	+ 18.1
Singapore	1.70	1.66	2.96	2.75	2,270.3	+0.7	+ 9.9	+ 5.4
South Korea	1,047	1,111	1,822	3.95	1,227.6	+1.6	+ 37.0	+ 35.5
Taiwan	33.6	33.0	58.6	1.55	5,971.1	+1.7	- 2.7	- 8.4
Thailand	41.2	40.7	71.7	4.30	696.9	-0.4	+ 4.3	- 1.6
Argentina	2.97	2.97	5.16	7.00	1,592.4	-2.8	+ 15.8	+ 16.0
Brazil	2.17	2.82	3.79	18.96	30,666.0	-0.8	+ 17.1	+ 43.0
Chile	533	602	927	5.04	9,461.4	-3.8	+ 5.6	+ 10.1
Colombia	2,282	2,543	3,971	6.46	7,751.7	+4.0	+ 78.4	+ 83.9
Mexico	10.7	11.4	18.6	8.73	15,981.2	+0.5	+ 23.7	+ 28.7
Peru	3.36	3.31	5.85	3.00	4,979.9	+1.9	+ 34.2	+ 30.9
Venezuela	2,959§	2,496§	5,151	14.39	20,420.3	+2.5	- 31.8	- 40.6
Egypt	5.76	6.20	10.02	9.23	52,634.3	+5.6	+114.1	+125.8
Israel	4.69	4.42	8.17	4.07	781.6	+2.0	+ 21.4	+ 11.7
South Africa	6.74	6.20	11.7	7.25	16,818.9	+1.5	+ 32.9	+ 11.1
Czech Republic	25.0	24.3	43.6	2.25	1,416.1	+1.6	+ 37.2	+ 22.4
Hungary	213	190	371	6.16	20,981.5	-0.9	+ 42.3	+ 20.8
Poland	3.42	3.31	5.95	4.65	33,026.9	+0.7	+ 24.0	+ 8.6
Russia	28.8	28.7	50.2	13.00	980.3‡	+1.7	+ 66.1	+ 59.6
Turkey	1.36	1.46	2.37	15.43	33,848.3	+2.1	+ 35.5	+ 34.3
EM (MSCI)*	1.00	1.00	1.74	na	640.5	+0.9	+ 18.1	+ 18.1
EMBI+†	1.00	1.00	1.74	na	355.6	+0.1	+ 7.9	+ 7.9

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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